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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO,
FRIDAY,
MARCH 3, 1950.

THE HONOURABLE W.F.A. TURGEON, K.C., LL.D. - CHAIRMAN

HAROLD ADAMS INNIS - COMMISSIONER

HENRY FORBES ANGUS - COMMISSIONER

G.R. Hunter
Secretary

P.L. Belcourt
Asst. Secretary

COUNSEL APPEARING:

F.M. Covert, K.C. G.C. Desmarais, K.C.	Royal Commission on Transportation
H.E. O'Donnell, K.C. H.C. Friel, K.C.	Canadian National Railways
F.C.S. Evans, K.C. I.D. Sinclair	Canadian Pacific Railway
C.D. Shepard Wilson McLean, K.C.	Province of Manitoba
M.A. MacPherson	Province of Saskatchewan
J.J. Frawley, K.C.	Province of Alberta
F.D. Smith, K.C.	Province of Nova Scotia; Transportation Commission of the Maritime Board of Trade
J. Paul Barry	Province of New Brunswick
C.W. Brazier	Province of British Columbia

Ottawa, Ontario
Friday, March 3, 1950.

MORNING SESSION

---The Commission resumed at 10.30 a.m.

MR. SINCLAIR: My lord, there is a matter at page 16970 of Volume 87 of yesterday's transcript that arose during the cross examination by Mr. Frawley of Mr. Liddy, that Mr. Liddy would like to add something to that might clarify it a little, and he thinks it might be of assistance.

THE CHAIRMAN: All right.

MR. S. J. W. LIDDY - RECALLED

THE WITNESS: At the bottom of the page, Mr. Chairman, in answer to a question by Mr. Frawley as to whether it is a fact that is what the Interstate Commerce Commission uniform system of accounts prescribes, I gave this answer:-

> "As I understand it, the Interstate Commerce Commission's present classification does not even provide an account for express expenses for the simple reason that no railway company has had any need to use such an account."

I would like to refer the Commission to Exhibit 182, which is the Interstate Commerce Commission's accounting classification, to Account 409, which appears at page 147 of that classification.

THE CHAIRMAN: It is struck out here.

A. Yes, it is struck out, Mr. Chairman, It is cancelled, and the order of the Interstate Commerce Commission which cancelled that operating expenses account is dated August 1949, and the cancellation was made effective - -

Q. August?

A. 1949.

Q. You do not know the date in August?

A. 8th day of August, 1949, and the cancellation of the account was effective January 1, 1950.

Q. That is very recent then?

A. Very recent, yes, sir, and the reason for the cancellation, I think, as I described yesterday, was that no American railway had any expenses for operating express services since the year 1939.

CROSS EXAMINATION BY MR. FRAWLEY:-

Q. Just as a matter of curiosity about that, Mr. Liddy, the Railway Express Agency is owned by seventy, Class I, United States Railways. I am reading from Exhibit 185, the Dominion Bureau of Statistic express statistics for 1948.

THE CHAIRMAN: You say the Express Company is owned - -

MR. FRAWLEY: The Railway Express Agency Incorporated is owned by seventy Class I United States Railways. I will read the whole paragraph. It is in the first paragraph of Exhibit 185, which is a Dominion Bureau of Statistics publication called "Express Statistics For 1948":

> "The Railway Express Agency Incorporated is owned by seventy Class I United States Railways and any net profits are apportioned according to the gross express revenue on lines party to the Agency Agreement. Any net revenue reported in Canada usually equals taxes."

Mr. Liddy, if one of the United States Railways (there is no use pursuing this too far) - -

A. You understand, Mr. Frawley, that this does not cover the American Express.

THE CHAIRMAN: This does not cover what?

A. The American Express Company operations which are financial.

MR. FRAWLEY: The American Express Company operations which are financial?

THE CHAIRMAN: You say this does not cover it. What about the American Express operations? They never were included as railway accounts, is that it?

THE WITNESS: I don't know the history, sir.

Q. What is it that does not include that - the cancellation order?

A. No, I am speaking now of Mr. Frawley's question on Exhibit 185, which covers the American Express Company Agency.

MR. FRAWLEY: Be more explicit - Railway Express Agency. I thought you were talking about another company called the American Express Company?

A. That is right, there is another company in the United States which carries on financial operations.

THE CHAIRMAN: What is the name of that company? Do you mean the American Express Company?

A. I would like to give you the exact technical name, sir.

Q. Are you referring to the Railway Express Agency?

A. No, I am now referring to - the Railway Express Agency handles express packages, but there is another company in the United States that handles financial paper, money orders and so on.

Q. You mean the American Express Company?

A. That is the proper name, yes, sir.

Q. Well, what connection has that Company with the railroads?

A. It has no connection, I don't believe, sir, except that the Canadian Pacific Express Company handles both express and financial paper.

MR. FRAWLEY: Now, do you know anything about the ownership of the American Express Company, if that is the correct name, the company that operates the financial business associated with the American Express operations?

A. No, I think that is an independent company, but I am not sure, Mr. Frawley.

Q. Entirely independent - nothing to do with the railroads or the Railway Express Agency?

A. I think that they divided up their field of operations when the American Railway Express Agency was formed.

Q. You see, what you say is borne out, Mr. Liddy, by another look at this Exhibit 185, Table 4 - "Operating Revenue". Now, you will see there, that under the column "Railway Express Agency Incorporated" there is no revenue reported for customs brokerage fees, money orders domestic and foreign, c.o.d. checks, telegraphic transfers either for that matter. The Railway Express Agency does not report any revenue in that column which would indicate that the Railway Express Agency does not carry on any financial business.

A. That is my understanding, Mr. Frawley.

Q. Incidentally, the Northern Alberta Railways, is there any separate corporation there to carry on the express business?

A. I think probably you are more familiar with that

than I am, Mr. Frawley.

Q. No, I am only familiar with where the rails run. I do not know how they operate the express business. It is jointly owned by the Canadian Pacific and Canadian National and I suppose, so that they will share equally, is there a separate corporation set up to carry the Express Company - surely not?

A. It does not say so according to the heading of the column on Exhibit 185. It speaks of "Northern Alberta Railways Company". You see, the other columns are "Canadian National Express Company", "Canadian Pacific Express Company" and "Railway Express Agency", but the Northern Alberta is described as the "Northern Alberta Railways Company".

Q. Yes, that is right. You see, in the fourth column on page 1 of this same Exhibit 185, you will see the statement:-

> "The Canadian National Express Department showed a deficit of $2,778,189 in 1948 while the Canadian Pacific and Northern Alberta reported some net income".

So, there is some separation there, but it is not worth while following up, I don't think.

Now, Mr. Liddy, you said yesterday at page 16973 towards the bottom of the page, about the middle of one of your answers:-

> "It is very confusing to have the cost of picking up packages in a truck in your expenses . How can you relate it to carmiles and locomotive miles which are on the railway?"

You were talking there about the difficulty, as you saw it,

of operating an Express Department as part of the railway?

A. That is right.

Q. Now, Mr. Liddy, you know all about the pick-up and delivery service which the freight services of the Canadian Pacific runs?

A. I know all about it? Well, I know about it.

Q. You know all about the financial end of it, the accounting end of it. You have not any great difficulty handling the pick-up and delivery aspects of the Freight Department?

A. You mean in the accounting?

Q. Yes, in the accounting?

A. The Express Company do that for us.

Q. The Express Company do that for you?

A. Yes, that is right; that is not on our railway accounts.

Q. All of the pick-up and delivery of freight everywhere throughout the system on the Canadian Pacific is done by the Canadian Pacific Express Company?

A. No, it is either done by the Canadian Pacific Express Company, or by contract - truckers.

Q. That is what I thought. Then, it is a payment out to a cartage company?

A. That is right.

Q. I am wondering why it was any more confusing than you have it now in the Freight Department?

A. Well, I say we have not got it in the Freight Department.

Q. You have told me now you do use some outside contractors to handle it when the Canadian Pacific Express Company does not do it?

A. We pay them a fee so it is not in the railway accounts.

Q. You say that the cost of picking up packages in a truck, it is confusing to have that cost in your expenses. Now, that statement bothers me a little bit, as to why it is any more confusing in your express business than in your freight business?

THE CHAIRMAN: Pardon me a moment. Who pays these contractors in a given case? Is it the Express Company or the Railway Company?

A. The Railway Company either pays the Canadian Pacific Express Company for picking up and deliverying this freight under the freight pick-up -and-delivery tariff; it is a special tariff, as I understand it, or the Canadian Pacific hires an independent operator to pick-up-and-deliver.

Q. And pays that independent operator?

A. That is right.

Q. And you say that these expenditures are not included in the railway accounts?

A. That is right.

Q. Why?

A. Because, we make a payment, sir, and it is taken off the revenue and there is no expense throughout our operating account. There is no item of cost of operating trucks, automobiles or freight handlers for picking-up or delivering this traffic in our accounts, so that when you take the railway account, sir, you relate the railway account to what are the revenues per mile or expenses per mile of line. It is purely and simply the revenues and expenses that are on the rails.

Q. Well, don't your transportation rates go up with

these expenses of bringing the freight in?

A. There is a special tariff to cover that charge.

Q. There is a special tariff?

A. I understand there is a pick-up-and-delivery tariff, but Mr. Frawley probably knows more about that than I do.

Q. Mr. Jefferson mentioned that.

MR. FRAWLEY: Oh, yes, he told us how it was done from the traffic point of view. Now, from the accounting point of view, Mr. Liddy, I don't quite follow you when you say that you do not put it into your railway accounts, this pick-up-and-delivery expense ?

A. That is right, it is not in our railway accounts because a fee is paid either to our Express Company or to an individual who is hired for the particular purpose of picking-up and delivering freight.

Q. And that payment is not reflected in your accounts?

A. That expense is not.

Q. That expense is not reflected in your accounts?

A. No, it is deducted from the revenue.

Q. Of course, it is deducted from the revenue, but that is just the same as paying out something and getting it back again. You mean to say that because it is merely a deduction from revenue it is not in the account?

A. What do you mean by paying it out and getting it back again?

Q. You say it is just a deduction from revenue. You have got so much in your gross, but after you have made a disbursement out, you have so much less in your hands?

A. That is right.

Q. And that is not in the accounts?

A. Not when you take it out, Mr. Frawley.

Q. That little transaction I have just put to you - you get in so much money. Say you send 100 pounds of goods on a p.u.d. rate from Calgary to Lethbridge, and you get, say, $1.50, but you have paid out 20¢ to somebody to get it from the origin in Calgary to the station, and to the destination from the station in Lethbridge. You have paid out something so that in your hand you have 80¢ or 70¢?

A. In your example it is $1.30, isn't it?

Q. Yes. Now, is that 20¢ anywhere in you account?

A. No, sir.

Q. No where in your accounting at all?

A. No, sir.

Q. You have no record at all? If somebody came along and said: "I would like to know just one thing; how much did you pay altogether in Lethbridge for pick-up-and-delivery service?" you say you could not tell them?

A. I did not say that.

Q. You don't keep it in the account?

A. We know every dollar.

Q. Couldn't you go to some account and find out?

A. I really cannot explain it any simpler than that.

Q. Where in those accounts would you have it, Mr. Liddy?

A. They are not in any of those accounts.

Q. You can't point to any account here or any account you use patterned on the I.C.C. Exhibit 185 - you can't point to any place where you can find the sum total of this 20¢ for p.u.d. here in Lethbridge?

A. No, wait until I read you the passage. Account 101 page 61.

(Page 16985 follows)

THE CHAIRMAN: Q. What are you reading from?

A. I am reading from Exhibit 182, that is, the classification of accounts.

Q. What page did you say?

A. Page 61, sir. First I would like to read the introduction:

"1. TRANSPORTATION - RAIL LINE.

The primary accounts included in this general account are designed to show amounts of money which the carrier becomes entitled to receive or which accrue to its benefit from service rendered in transporting property or persons by rail line."

Then it goes on to mention various classes of revenues, freight revenues under account 101, (a), (b), (c), (d), (e), (f), (g), (h) and (i), and then I come down to the items to be charged. The first item to be charged against the revenue is "Amounts paid as bridge and ferry arbitraries on freight" -- that is, that would be deducted from whatever total freight revenue you had -- and the second item is "Amounts paid for completing a haul" -- that is, we take that out of our revenue. And a little further on, about the eighth line, I read, "Amounts paid for transferring freight between stations". Now, that is exactly what we do, Mr. Frawley. Anything that we pay for completing a haul, we take it out of our freight revenue account.

MR FRAWLEY: Q. Mr. Liddy, if you don't mind an amateur directing your attention to something even a little more precise, turn over the page to page 62, and you see Note G:

"This account shall be maintained so as to show separately payments and allowances (a) to railway express agencies, (b) to motor truck companies and others, and (c) to shippers and consignees, for terminal

collection and delivery services when performed in connection with line haul transportation of freight on the basis of freight tariff rates".

That is precisely what we are talking about, isn't it?

A. Yes, sir, and precisely what I said. I can tell you exactly how much money we did pay to any contract carrier, to any express company.

Q. Well, that is all I started out to discuss with you. So do you handle that all very well in your freight tariff business, freight traffic business?

A. Yes, sir; we follow the classification.

Q. And I suggest to you that, quite contrary to what you said yesterday afternoon about it being confusing, I should think that you could tell just as precisely what you did in connection with express business, what you did with one hundred pounds of express as you did with one hundred pounds of freight; is there any question about that?

A. Yes; the word "confusing" is not used at all the way I used it, Mr. Frawley. I think the record can speak for itself.

Q. Yes, I think we---

A. We will let it go.

Q. I think we will let it go; not much more trouble running an express company than a freight company, I would think. Now, Mr. Liddy, coming back to the striking out of rule No.409---

THE CHAIRMAN: What's that again?

MR FRAWLEY: Account 409; it is on page 147, I think.

Q. Having in mind the account that I spoke to you about yesterday, account 107, on page 65, one account seemingly having to do with express revenues, namely, 107, and 409, express expenses -- you go along with me that far?

A. Yes. The express revenue in account 107, of course,

is what the American Express Agency pay the railways; that is all that is in account 107.

Q. Now, would you just read the second paragraph of 107, and perhaps you answered too hastily, Mr. Liddy:

"When a railway company transacts an express business through its regular railway organization, the revenue therefrom shall be credited to this account."

A. As I say, there are no railways in the United States---

Q. We had all that yesterday afternoon.

A. And the Canadian Pacific does not conduct an express business through its regular railway organization.

Q. All I mean, Mr. Liddy, is that you do not quite mean what you said a moment ago, that this account applies and operates and is applicable to take care of the net money paid to the American railways by the Railway Express Agency, Incorporated?

A. I certainly do mean that.

Q. You mean that?

A. Exactly what I said.

Q. That the net profits which are paid to say the Pennsylvania Railway for its share of the net profits of the Railway Express Agency are taken care of by account 107?

A. That is right.

Q. And then also it takes care of the instance in which any railway company would be operating its own express business?

A. Well, the witness gives no answer to that, because he has covered that question.

Q. When did he cover it?

A. Well, I have been covering it for five minutes.

Q. Do you mean to say that now, so far as you know, no American railroad operates its own express business? That is what you mean?

A. Yes.

Q. Now, I want to talk to you about that, Mr. Liddy. Suppose the Pullman Company -- it has recently been dissolved -- isn't that true -- either by court injunction or by some statute of the United States Congress?

A. I believe it has.

Q. Now, suppose that similar action were taken against the Railway Express Agency; then I suppose that these railways over there would have to consider how they were going to operate their express business on their lines; that would also seem to follow?

A. I would think that was logical.

Q. And then I suggest to you that in that event 107 would not only be convenient but absolutely necessary, wouldn't it?

A. I do not know what the Interstate Commerce Commission would do under those circumstances. The Interstate Commerce Commission classification is designed purposely to keep railway accounts as pure as you can keep them.

Q. Mr. Liddy, I would suggest to you that the Interstate Commerce Commission would not need to do anything at all; they have already said it:

> "When a railway company transacts an express business through its regular railway organization, the revenue therefrom shall be credited to this account."

If the Pennsylvania Railway Company today decided to operate its own express business, the revenue therefrom would be credited to account 107. You have no quarrel with that

statement, have you?

A. If you know what the Interstate Commerce Commission will do, I will accept it.

THE CHAIRMAN: Q. I beg your pardon?

A. If Mr. Frawley knows what the Interstate Commerce Commission would do, why, then I have nothing else to say.

MR FRAWLEY: Q. Now, Mr. Liddy, you may consider that as an apropos answer. I am putting it to you again: Suppose that the Pennsylvania Railway Company decided, for reasons of its own, to withdraw from the Railway Express Agency, so far as you or I know -- we don't know anything about the contract; they might be able to do it, depending on the contractual relationship and so on; suppose they decided to withdraw?

A. Then I would suggest that the Pennsylvania Railway set up a Pennsylvania Railway Express Company.

Q. You would suggest that to them?

A. Yes.

Q. Well, suppose they decided not to accept your advice, and to go along the other way, operating their own express business; suppose that happened, that after giving very careful consideration to your advice, I might advise them the other way, and -- just imagine such a thing -- they went along with my suggestion, and they operated their own express business through their own regular railway organization; surely then they would use account 107?

A. Oh, you are away beyond me.

Q. All right; that is the only answer you have, that I am away beyond you?

A. I cannot---

Q. You cannot follow me that far?

A. Well, it is not too practical, Mr. Frawley.

Q. Just be as practical as you like. I am putting to

you a simple proposition, that if the Pennsylvania Railway decided to transact its express business through its regular railway organization, they would account for the revenues through account 107; you disagree with that?

A. Then the comment I would have would be that when they wanted a freight rate increase they would be confused, they would have to take those items of expenses out, and all I am suggesting is very simple, Mr. Frawley -- that when we go before the Board of Transport Commissioners and try to design the Canadian classification of accounts, let us all sit around the table in a friendly spirit and say to the Board of Transport Commissioners, "Now, what are you willing to defend, when we come up to you for a freight increase? What accounts are you willing to defend?" And certainly I am sure that the Board of Transport Commissioners would be very careful not to put anything in their classification that people could trot up to the Cabinet and say, "Well, this freight award is not soundly based."

Q. You don't like that fighting things up to the Cabinet, eh? Mr. Liddy, would you just take a look at your Exhibit 182 now, and let me just run through a few accounts and just see what the I.C.C. has had in mind in connection with express business. Page 26, account No.16, which is under the general heading of "Fixed Assets, Road and Equipment" -- you will see that in account No.16, which is an account providing for the cost of station and office structures and so on -- do you see that?

A. Yes, Mr. Frawley.

Q. And you will see down there, if you run down the column alphabetically, that there is a provision there for express buildings?

A. Yes.

Q. And then if you will---

A. You understand, they get rent. The railways are compensated for any maintenance on express buildings by the payment the Railway Express Agency makes to the railways.

Q. You are going back now to this Express Agency, Incorporated?

A. No, I am---

Q. Railway Express Agency?

A. I am just putting the classification together in its context.

Q. How about all these other things, such as coal bins and so on? Is there a rental paid for that?

A. Coal bins?

Q. Yes; that is another item I see there. You say there is any distinction so far as this rule is concerned, this account is concerned, between express buildings and anything else you find there -- the very next one, fences?

A. Well, all I was pointing out was that if the railway has any facilities for handling of express in connection with its trains -- that is, storing of express till it gets on the trains -- that is all compensated to the railway by the payment the American Express Agency makes. The same with mail; you have seen mail bags go on trains; now, there has to be a storage facility for the mail bags until the train is ready to leave and that mail is put on the train and is transported. Now, the charge that the railway gets or the revenue the railway gets for transporting mail takes care of any of this expense, this maintenance and these facilities that are devoted to that particular service.

Q. Now, that is interesting to know, Mr. Liddy, but I am only asking you whether or not you see any distinction

between the manner in which the fixed asset, namely, express buildings in account 16, differs from any other item of fixed assets in that group called "Station and Office Structures and Details"? You do not see any distinction at all?

A. I do not know what you mean by distinction.

Q. Well, do you see any difference? The express buildings, is that item taken out and dealt with separately in any fashion? Is there any explanatory note which would cause us to think there was any distinction in the mind of the person who formulated the rule, the account, as between express buildings and ordinary freight platforms, for instance?

A. I am sure you are thinking about something else that I do not comprehend at all.

Q. This is an account which tells you where to put the cost of the fixed asset, isn't it?

A. Surely; and it is a railway property.

Q. All right, then.

A. And it is property that is devoted to transportation service.

Q. Look at page 43, account 54.

THE CHAIRMAN: I notice back on page 26, where you find the item "Express buildings", it is under the general heading "Station and Office Structures and Details". Does it not mean stations and office structures of the railway company itself?

MR FRAWLEY: Yes; that is precisely why I am bringing it to the attention of the witness, that it is regarded here, as far as these I.C.C. accounts are concerned, as permitting a railway operation of an express business, that is all, sir -- as contemplating the railway operation of an express business; and I am accepting what

the witness says, that at the moment, so far as we know, no railway itself precisely under its own name carries on an express business.

THE CHAIRMAN: In Canada, do you mean?

MR FRAWLEY: In the United States. I am simply calling attention to the fact, sir, that the accounts contemplate the very thing, in other words contemplate the way the Canadian National Railway is doing it in Canada today; that is my only point.

THE CHAIRMAN: Only in the United States, while the system is set up, the railways are not there.

MR FRAWLEY: That is right.

MR EVANS: Sir, that is not right. I am sorry Mr. Frawley gave you---

THE CHAIRMAN: That is how I would interpret the statement.

MR EVANS: What the witness has said, sir, is that the express business is conducted on the railway but not by the railway, that it has these facilities. The railway has these facilities for carrying on the express business.

THE CHAIRMAN: You are talking of the United States now?

MR EVANS: Yes. So my friend is not quite right when he gave you the answer he did. This does not prove that the railways are conducting or there is provision for conducting an express business. It merely shows that they must have facilities for carrying the express.

THE CHAIRMAN: Reference was made a while ago to them carrying mails. One of the items there is mail cranes. They have the mail cranes ready if any mail comes along, I suppose.

MR EVANS: Yes.

THE CHAIRMAN: They have a contract, probably, for carrying the mail.

MR FRAWLEY: My lord, I do not want to get into one of these arguments with my friend, but when you look at 107 -- we have looked at it now several times -- account 107 on page 65, it seems to me nothing could be plainer than that that account provides for the carrying on by a railway company of an express business through its own regular railway organization, that is all.

MR EVANS: Well, that was not what you were talking about a minute ago.

THE CHAIRMAN: "When a railway company transacts an express business through its regular railway organization, the revenue therefrom shall be credited to this account."

Is that what you mean?

MR FRAWLEY: Yes. My general proposition is, sir, that these accounts contemplate the carrying on of an express business by the railway company through its own regular railway organization.

THE CHAIRMAN: Now, can I get this fact admitted, that in the United States today there is no railway company transacting an express business through its regular railway organization?

MR FRAWLEY: As far as we know, that seems to be. I certainly have no knowledge to the contrary, and I think that is Mr. Liddy's definite evidence.

THE CHAIRMAN: Now, you see, this rule, while it is enacted in the United States, is not operating there.

MR FRAWLEY: At the moment.

THE CHAIRMAN: But it could very well be taken into Canada and used here; is that what you say?

MR FRAWLEY: Yes; that is the next point. I was

still discussing it as it is in the United States, and perhaps pursuing it at unnecessary length. I was simply endeavouring to combat the statement of the witness that there is difficulty and confusion in the operation of an express business by a railway company through its regular railway organization, that is all.

THE CHAIRMAN: What is the practical point concerned here, in the accounts, for instance, of the Canadian Pacific?

MR FRAWLEY: I might as well come to my position before the Commission, sir. It is simply that the Board of Transport Commissioners must be given authority by statute, unless there is plain statutory authority now, to promulgate and establish and set up uniform accounts for railway companies, and when they come to the matter of express there has to be a ruling by the regulatory body, the Board of Transport Commissioners, to what extent there shall be uniformity, and if there must be uniformity then I put it as a practical matter, one or other of the present modes of operation in Canada must go, and I am perfectly easy in my mind, and my submission to the Commission simply is that whether they accept the Canadian method of the subsidiary company or the Canadian method of operating through their own railway organization, it matters not, so long as it is the same for both.

THE CHAIRMAN: In the case of the Canadian Pacific do we find these amounts entered simply as Other Income?

MR FRAWLEY: Only in one particular. As a matter of fact, there is a remarkable similarity now, but with respect to the disposition of the revenue which comes from the financial paper which they sell -- that short description of their operation -- that revenue goes into

Other Income in the case of the Canadian Pacific, and that one distinction, which is not really a major one, is the principal distinction now between the two express companies in Canada. The Canadian National Railway bring into railway account the net revenue from all the express operations, the transportation of express packages, and the net revenue from financial operations.

(Page 16998 follows)

COMMISSIONER ANGUS: Mr. Frawley, in these American regulations the Interstate Commerce Commission seems to contemplate the possibility that some railways may transact their own express business, and others may not do so. They have not imposed any uniformity on American railways; they have not said that all railways must do their own express work or none.

MR. FRAWLEY: I think you are right, sir, to the extent that the railway companies in the United States may not all now conduct it as a railway operation, but they must all be done according to the same pattern.

COMMISSIONER ANGUS: My question is that in Canada do you want it to be open to the Board to say that if a railway transacts its own express business, then this shall follow, and if the organization does it, then the other shall follow?

MR. FRAWLEY: As a practical matter perhaps when we have only two companies, one going one way and the other going the other; that might be a little more difficult as a practical matter, but we would continue to have them run according to two separate methods. That is only a practical matter. I would be prepared to leave it entirely to the Board.

COMMISSIONER ANGUS: You would leave it entirely to the Board, and it may ask for identity and it may not.

MR. FRAWLEY: That may be. There might be an exception to absolute identity. The principle is that the Board should have the right to establish uniform accounting. What they might consider to be uniform accounting might admit of some exception here.

MR. EVANS: My friend and I are in perfect agreement then.

THE CHAIRMAN: Apparently the dove of peace has

descended; let him spread. I was about to ask another question, but I would not ruffle his wings again.

MR. COVERT: Let us not change the position, sir.

MR. FRAWLEY: Q. Now Mr. Liddy, the Canadian Pacific railway owns all the stock of the Canadian Pacific Express Company?

A. That is right.

Q. Would you look at account No. 107 again, sir, looking particularly at the second paragraph. Do you not really think --

THE CHAIRMAN: The second paragraph of what?

MR. FRAWLEY: Of account No. 107.

THE CHAIRMAN: I have it.

MR. FRAWLEY: Q. Do you not think you are now a railway company transacting express business through its regular railway organization?

A. No, sir.

Q. You think not?

A. I know not.

Q. Because of the fiction of the charter granted to the Canadian Pacific Express Company?

MR. EVANS: Mr. Frawley, it is not fiction, it is a fact; it is physically a fact.

MR. FRAWLEY:Q.Except for the fact that the Canadian Pacific Express Company is a separate legal identity, its business is operated by the Canadian Pacific Railway Company?

A. No, sir.

MR. EVANS: Mr. Frawley, let us not get at cross purposes. The Canadian Pacific Express Company has its own head office, its own president,its own staff of officers, its own organization for accounting, revenue --

THE CHAIRMAN: It is a separate organization, is it?

MR. EVANS: It is.

THE CHAIRMAN: This rule applies when the railway company operates an express business through its regular railway organization.

MR. EVANS: Yes.

THE CHAIRMAN: You say that does not apply?

MR. EVANS: I say it does not apply. Mr. Frawley suggests it is mere fiction. I am telling him, let us not get at cross purposes, because the fact is that we have a separate organization, a separate staff, separate officers, board of directors, accounting, clerks --

MR. FRAWLEY: That is public knowledge; everybody understands that.

THE CHAIRMAN: You are analyzing the language here to see whether it applies to the Canadian Pacific?

MR. FRAWLEY: That is right, sir. I am putting it to the witness, as I put it to the Commission, for practical purposes, as distinct from form, the Canadian Pacific Express Company is simply the Canadian Pacific Railway Company operating through the medium of a separate wholly-owned corporation. I am looking at substance, rather than form.

THE CHAIRMAN: Do you see any danger behind all this for the public, in freight rate applications and so on?

MR. FRAWLEY: I am only concerned in that regard with what the judgment of the Board said; it goes for three places in which the two railways are separate in Canada; express, communications, and depreciation.

This is what the Assistant Commissioner had to say in the 21 per cent case judgment, at page 74. . . At about the middle of that page the Assistant Chief Commissioner said:

"From a rate-making point of view, however, in Canada to have one of its major railways on one method of depreciation and the other major railway on another leads to some confusion. It is more than difficult to make effective comparisons."

Now I put it to the Commission that it is only a matter of degree, when there is not absolute uniformity; there is difficulty in a varying degree in the making of effective comparisons.

THE CHAIRMAN: Take the case of the Canadian National Express business, have they likewise a separate company?

MR. FRAWLEY: No; they operate, just as a department of the railway.

THE CHAIRMAN: Then their case comes within this rule?

MR. FRAWLEY: Strictly within rule 107.

THE CHAIRMAN: The rule, as it is framed, foresees that other railway companies may not be within it, because it says that when a railway company transacts an express business through its regular railway organization . . . That you say applies to the Canadian National Railways.

MR. FRAWLEY: If it were in force in Canada it would apply to the Canadian National Railways.

THE CHAIRMAN: And it says that the revenue therefrom shall be credited to this account. . .

MR. FRAWLEY: They tell the account to put it to.

THE CHAIRMAN: Apparently this language is not applicable to the Canadian Pacific Express Company.

MR. FRAWLEY: Yes, that is the situation.

THE CHAIRMAN: Now, what would you do?

MR. FRAWLEY: Personally, I would advocate that

it be made, for simplicity sake, a department of the railway, but I am not suggesting that the Canadian Pacific Express Company be disorganized and dismantled.

THE CHAIRMAN: How else could you do it?

MR. FRAWLEY: I would speak before the Board when the decision was being made, as to which method should be followed; I would argue to the Board that the method presently in force by the Canadian National is to be preferred; because of that distinction, large or small, there is a difference in the treatment for some reason or other in that the Canadian Pacific takes the revenue from the financial operations of the Canadian Pacific Express and puts it into other income. If they put it into railway revenue, then there would be uniformity. There would be uniformity, except for the fiction, for the form again, of the subsidiary corporation which has been set up by the Canadian Pacific Railways.

MR. EVANS: If it will help my friend at all, I say that I would not deny him the right to put forward that view to the Board; I would expect a different view to be reconciled when it comes before the Board.

THE CHAIRMAN: How far do you wish us to go?

MR. FRAWLEY: Just a recommendation that, by statute if necessary, the Board of Transport Commissioners be empowered to establish a uniform accounting system for the Canadian railways. It is as simple as that.

THE CHAIRMAN: That would leave the question unsolved. They would find two railways with different organizations.

MR. FRAWLEY: But the rules could say there must be uniform treatment of all revenues, or there must be separate treatment. The railways might say that the Canadian National should account for their financial

paper revenues by crediting them to their other income; but the prescription should be the same for everything, it must be uniform. That is my point. It does violence to uniformity when the Canadian Pacific takes its financial revenues into other income, and the Canadian National takes its financial revenues into rail income.

MR. EVANS: I gather then that my friend would not accept rule 107 of the Interstate Commerce Commission. Perhaps that would bring the matter to a head.

THE CHAIRMAN: It is too open to cover his -- ?

MR. EVANS: Yes.

COMMISSIONER ANGUS: Mr. Frawley, my understanding is that you would say the Board should be free to make a rule similar to Rule 107 if it wished to do so, but it would be a wiser Board if it did not.

MR. FRAWLEY: Frankly, sir, what I say is that a rule should be made so that all revenue should be taken into rail income, that is, revenue earned by an express company, by an express operation.

COMMISSIONER ANGUS: Are you asking this Commission to say anything about that?

MR. FRAWLEY: This Commission simply recommends that the Board be given wide power to set up a uniform system of accounting, that it include express operations of the railway; and of course I am going further in connection with the power which this Board should have dealing, say, with other income, segregation of accounts and other assets. All that will come within the purview of the Board under the recommendation of this Commission, as I submit it.

THE CHAIRMAN: The net difference would be this particular income would no longer be called "other income."

MR. FRAWLEY: That is right, sir. This

particular income would from thence forward be all rail income.

THE CHAIRMAN: Rail income?

MR. FRAWLEY: Yes. I say whatever mechanics you work out to achieve that end, that is the proper way to report the revenue.

Q. Now, Mr. Liddy, will you take a look at telegraphs, communications in other words?

THE CHAIRMAN: Where is that?

MR. FRAWLEY: The Canadian Pacific calls it "communications". It is a new subject. I will call the attention of the witness to the form of account in Exhibit 182.

Q. For the record, will you go along with me on this brief summary of the distinction between the Canadian Pacific and the Canadian National; in the case of the Canadian Pacific the net revenue of the communications department is credited to non-rail, to other income?

A. Yes. You understand that that is purely commercial, the net revenue.

Q. The commercial net revenue of the communications system is credited to non-rail?

A. Yes.

Q. To other income. And all other aspects of your communications system is regarded as a service to the railway, and it is charged as a cost to rail. That is, roughly, properly summarized, is it not?

A. The way I would put it, I think we would agree that the communications department of the company charge the railway with the cost of rendering communications services required by the railway.

Q. Now in the case of the Canadian National Railways

all is credited to rail. Now so as to be certain about it, I will call your attention to page 98 of the Canadian National brief. I don't know, Mr. Liddy, that I have a plain statement, but I think there is no question about it. The paragraph I was calling your attention to on page 98 was more or less a reason for it. It is paragraph 3 on page 98, and starts off this way:

"The Interstate Commerce Commission Uniform System of Accounts for Steam Railroads, respecting the accounting for telegraph operations, is similar to that prescribed for express operations,--"

THE CHAIRMAN: What is that, Mr. Frawley?

MR. FRAWLEY: This is the Canadian National brief, my lord.

THE CHAIRMAN: Go on.

MR. FRAWLEY: It continues:

"-- in that the railway operating revenue and expense accounts shall include the revenues and expenses of commercial telegraph operations conducted by the carrier. Canadian National Telegraphs are merely another department of the Railway. Although the necessary charter powers are held by subsidiary companies, nevertheless, because of the consolidated basis of its accounting, the separate identity of the subsidiaries is inconsequential."

Now the next paragraph reads:

"Commercial telegraph services in Canada have been developed largely as a by-product of railway operations. The commercial revenues have assisted the railways by carrying some portion of the cost of furnishing and operating essential telegraph and telephone facilities."

The same situation obtains in connection with the Canadian Pacific, doesn't it, Mr. Liddy?

A. Well, you are getting into traffic matters here, Mr. Frawley.

Q. I am trying to keep to the accounting matters.

A. Yes.

Q. Your communications is merely a department of the railways?

A. No, it is a department of the company.

Q. Yes, but you haven't set up a separate subsidiary?

A. No separate subsidiary.

Q. As in the Canadian Pacific Express case?

A. That is right.

Q. But you do treat your net revenue from the commercial telegraph operation as non-rail or other income?

A. That is right.

Q. You treat that the same as financial net revenue received from the Canadian Pacific Express?

A. That has nothing to do with the rail.

Q. That having nothing to do with rail?

A. That is right.

Q. Wouldn't you say the commercial telegraph services of the Canadian Pacific Railway have been developed largely as a by-product of the railway operation?

A. It is a completely separate department, Mr. Frawley. They have a separate general manager, separate accounting and everything.

Q. Mr. Liddy, I don't want to over-simplify it.

A. It is not a by-product.

Q. You say it is not a by-product?

A. Not a by-product at all.

Q. Isn't it a fact in the early days when you constructed the railway you had to have a telegraph line to despatch the trains?

A. Yes, and we still do.

Q. Now, just step by step. You had to have telegraph lines to help you despatch trains, and afterwards you superimposed upon that telephanic equipment and communications, and now you have both telegraph and telephone?

A. Not on the despatchers' wires.

Q. Not on the despatchers' wires?

A. No, sir.

THE CHAIRMAN: I do not hear you.

THE WITNESS: Mr. Frawley says we superimposed commercial messages on the despatchers' wires. We don't do that.

MR. FRAWLEY: Q. You say you don't superimpose that on despatchers' wires?

A. No.

Q. Let us not be technical. You developed your communications system, and now it includes telephone?

A. For railway purposes.

Q. You having had your telegraphic lines and equipment for the purpose of operating the railway, and getting it from division point to division point, that was the original purpose of it, I suppose?

MR. EVANS: Isn't this all argument before the Board when you come to uniform accounting, Mr. Frawley?

MR. FRAWLEY: No. The Board has to have some principles; the Commissioners have to lay down principles, Mr. Evans.

Q. Now, Mr. Liddy, is it a fact that, starting with the telegraphic lines, which you needed to operate the railway efficiently --

A. I really don't know the history; we may have had telegraphic services before we ever had railways.

Q. Are you saying then --

A. They may have. I wouldn't be surprised that a telegraph line was put through.

Q. That might be interesting to find out. You say you were sending commercial messages before the first train went through?

A. I wouldn't be surprised.

Q. You say it was put up there for the purpose of operating commercial messages before it was put up

for operating the railway system?

A. Some may have been, some may not have been.

(Page 17012 follows)

THE CHAIRMAN: Let me make sure. Is there any separate Canadian Pacific Telegraph Company?

MR. FRAWLEY: No, the witness has said that there is no separate corporation; it is operated by, I said, a Department of the Railway, and he said by The Company.

THE CHAIRMAN: Does the same apply to the Canadian National?

MR. FRAWLEY: Yes, the same applies to the Canadian National. That is made plain by that paragraph at page 98 of the Canadian National submission:-

"Although the necessary charter powers are held by subsidiary companies - -"

THE CHAIRMAN: Just a minute - "Although the necessary charter powers are held by subsidiary companies"- what are the subsidiary companies?

MR. FRAWLEY: I can't say that.

THE CHAIRMAN: In that case, of the Canadian National there are subsidiary companies?

MR. O'DONNELL: They are operated on a consolidated basis. The charters are there, but the operations are conducted by the Canadian National Railways.

THE CHAIRMAN: Then, there is that difference between your Company and the Canadian Pacific Railway Company?

MR. O'DONNELL: That may be sir.

THE CHAIRMAN: In the case of the Canadian Pacific there are no subsidiary companies in existence?

MR. O'DONNELL: That is as I understand it.

THE WITNESS: For communications, that is all, sir.

MR. FRAWLEY: Now then, I want you to look at two or three accounts in Exhibit 182. Will you look at

page 26, Account Number 16, and you will see there in the third column, "Telegraph Offices".

THE CHAIRMAN: Pardon me, you are on - -

MR. FRAWLEY: Page 26, sir, Account Number 16.

THE CHAIRMAN: Now, what about it? What is your question?

MR. FRAWLEY: I am calling the witness's attention to the third column, to the item "Telegraph Offices" and the Account says:

> "This account shall include the cost of station and office structures, their fixtures, appurtenances ..." etc.

Now, will you look at page 30, and just underneath Mr. MacPherson's "coal and ore wharves", you will find Account Number 26 "Telegraph and Telephone Lines".

A. Yes, but you understand, Mr. Frawley, in my evidence in chief that I pointed out that the American Lines did have some small telegraph and telephone operations amounting to 3/100 of 1% of the total railway revenues, and the classification has to provide for those small services.

Q. When a railway company in the United States operates a telegraph system, these are the accounts which guide them in the accounting?

A. The Interstate Commerce Commission classification, realizing that these things were all incidental and small in amount, did not require the - -

Q. I don't see why - -

A. Please, Mr. Frawley. The Interstate Commerce Commission, realizing that these small railways having these incidental services would be burdened by setting up separate

companies, separate charters, permitted the railways to float these items into their accounts, and my evidence is to the effect, that whatever may happen to be in the total of United States Railway accounts, does not make a whit of difference when you come up to a freight rate case.

Now, the situation in Canada is entirely different. The two large railways in Canada have extensive telegraph and extensive express services amounting to many millions, and the situation in Canada is not on a parity at all with what it is in the United States. Let me make it quite clear, that what you are now speaking of to me about the classification, is well known by Canadian Pacific accountants and by Canadian National accountants and we are willing to get around a table - we are willing to cooperate with the Board - we are willing to get out the best thing we can towards uniformity of the classification, and have no fear about that.

Q. Well, that is very promising. If I may just get on with my cross examination, you said a few minutes ago something about those small railways. Was that a slip of the tongue?

A. No, no slip.

Q. You were referring to small railways?

A. That is my belief.

Q. I put it to you, that these accounting classifications are for Class 1 Railways?

A. But what Class 1 Railway has its own communication service?

Q. The accounts are for all Class 1 Railways?

A. I am not disputing that fact.

Q. I don't see any reason why you should draw a distinction because a telegraph system is small?

A. You just leave it to us, and we will fix this thing to your satisfaction.

Q. That is the way it has been for fifty years. It is almost time to make a speech, Mr. Liddy. Some people in Canada hope that the day will come when these things will pass into the hands of a regulatory body.

MR. EVANS: What he is saying to you, is that the Board and the railways have got to sit down and your own accounting witness has agreed to that. That is all he said. We will come to an agreement on uniform accounting.

MR. FRAWLEY: He just said "Leave it all to us".

MR. EVANS: No, he did not.

MR. FRAWLEY: That is just exactly what he said and Mr. Jefferson said just about the same thing.

MR. EVANS: Now, now, Mr. Frawley.

MR. FRAWLEY: No, I am just somewhat concerned about how things have been going in Canada. The Governor-General-in-Council has set up this Commission to just find out all about it.

MR. EVANS: We are not objecting to having the Commission find out anything. That was a perfectly impertinent and uncalled for remark.

MR. FRAWLEY: Now, Mr. Liddy, will you look at Account Number 26 on page 30. I have called your attention to that. The next one is on page 46, Account Number 73. From that, you will find that provision is made for some expenses, expenses of the telegraph services, the law expenditures in connection with telegraph services, that is for construction as a matter of fact, as the Account so indicates, and you have a direction there, or the American Class 1 Railways have a direction as to where to make an

[illegible]

A. [illegible] and we will try to [illegible]

Q. [illegible] been for [illegible]

[illegible]

[illegible] hope that [illegible]

[illegible] one of [illegible] tools.

MR. [illegible]: [illegible]

[illegible] and the [illegible]

[illegible]

[illegible]

Q. [illegible]

MR. [illegible]: [illegible]

MR. [illegible]: [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

MR. WANDS: [illegible] to [illegible]

[illegible]

MR. PRAWDY: [illegible] look at

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

accounting of legal expenses in connection with telegraph services?

A. Well, the lawyers always seem to come in with their fees.

Q. Even at the beginning before the lines are completed.

THE CHAIRMAN: That is a very practical thing.

MR. FRAWLEY: Yes, taking care of the lawyers before the line is finished. Then, on page 46 again, Item 74, "Stationery and Printing" - -

THE CHAIRMAN: What is this now?

MR. FRAWLEY: In the next account, sir, "Stationery and Printing" Number 74.

"This account shall include the cost of stationery, stationery supplies" and so on.

Then, down in the third column again, on page 47, you see, "Telegraph Blanks", so that they tell you how to account for the money you spend for telegraph blanks, and I take it that is during construction, and I suppose that is for the public to send messages. Would you say that that is for the public to send messages?

THE WITNESS: Yes, this classification is consistent, but don't worry about the amount, Mr. Frawley; it is inconsequential when you take all the United States Railways combined.

COMMISSIONER INNIS: I would ask Mr. Frawley this. Has this reference to any classes of employees?

MR. FRAWLEY: On page 46?

COMMISSIONER INNIS: On page 46.

MR. FRAWLEY: The whole heading, sir, is "Stationery and Printing".

COMMISSIONER INNIS: But following immediately - "Include the cost" and so on "Used by any class of employee".

MR. FRAWLEY: "Used by any class of employees in connection with construction and not provided for elsewhere".

THE CHAIRMAN: This is a residual clause.

MR. FRAWLEY: That might very well be.

THE CHAIRMAN: Yes, it says "Used by any class of employees in connection with construction...".

MR. FRAWLEY: "...and not provided for elsewhere".

THE CHAIRMAN: It must be used by employees in connection with construction only, then, and not as provided for elsewhere.

MR. FRAWLEY: Yes, well, can you - you are familiar with these accounts, Mr. Liddy. Can you tell me where one would find any premise about this Account 74, the item, "Telegraph Blanks" to which I have called your attention? These are not telegraph blanks for the use of the public to send commercial messages?

A. Certainly not; this is a property investment.

Q. Well, a moment ago, Mr. Liddy, you said "Certainly", so perhaps you were wrong. You are now correcting that, are you?

A. I did not say "Certainly" or I did not intend to say "Certainly".

THE CHAIRMAN: The phraseology is this, that "This account shall include...". It is not excluding the blanks used by employees. I think it means more than that. It means, probably all these descriptions and including those used by employees. Isn't that right?

THE WITNESS: What it means, sir, is that in building this property - -

Q. "...The cost of stationery, stationery supplies, postage, office devices and printed matter" and then it goes on "limited", but it includes those things; it does not say meaning those things.

COMMISSIONER INNIS: Mr. Chairman, do the words "shall include" make it - -

THE CHAIRMAN: I think the word - I would have to read the rest of it to see.

COMMISSIONER INNIS: I think the word "shall" is used throughout the classification.

THE CHAIRMAN: But we still have to see what "elsewhere provided for" means.

THE WITNESS: It simply means that this is one of the legitimate expenses of property investment.

THE CHAIRMAN: But Mr. Frawley, you have been through these orders many times, I can see. Then, when this Item 74 says, "This account shall include...", does that mean it includes nothing else but what follows?

MR. FRAWLEY: Well, you see, looking at it from the point of view of the construction of a statute, of course, the expression "shall include" does signify that it is not all-inclusive, and there may be other items.

THE CHAIRMAN: Does it mean then: "This account shall include all these items which are enumerated here (maybe a hundred or so)" - shall cover all those including those materials used by employees in connection with construction?

COMMISSIONER INNIS: I should think, Mr. Chairman, since each heading begins "shall include", it is a directive to the effect that that was the limit.

THE CHAIRMAN: Yes, I think what Dr. Innis says

is probably the solution of it.

MR. EVANS: Of course, there is this to be said about that, sir. That 74 says:- "

"Shall include the cost of stationery, stationery supplies, postage, office devices, and printed matter, used by any class of employees in connection with construction and not provided for elsewhere".

THE CHAIRMAN: Yes, there are such items as are provided for elsewhere.

MR. EVANS: It is one of those basket items, I think.

MR. FRAWLEY: I might call your attention, sir, to Item Number 14, on page 18, which is under the heading of "General Instructions".

THE CHAIRMAN: Did you say page 18?

MR. FRAWLEY: Page 18, sir.

THE CHAIRMAN: And Item 14?

MR. FRAWLEY: It is page 18, and it is under the heading of "General Instructions". It is Item 14, yes, sir:-

"To the end that uniformity in accounting may be maintained from year to year, carriers shall submit all questions of doubtful interpretation of the accounting rules to the Commission for consideration and decision".

THE CHAIRMAN: It may apply here to the Board?

MR. FRAWLEY: Yes, sir. Now, when you look at page 68 again, Account 138, it seems to clarify the matter to some extent. Now, that is the revenue, and it says:-

"This account shall include the revenue from commercial telegraph and telephone operations;

also amounts received from telegraph and telephone companies...".

And that has been amended up to the first of January 1949, and that certainly seems to contemplate that if a Class 1 Railway receives revenue from commercial telegraph operations, that it goes into the ordinary rail income of the company.

THE WITNESS: As I said, Mr. Frawley, the Interstate Commerce Commission, realizing the inconsequential amount of these things you are speaking of, have made this classification this way, and I have not a bit of doubt in my mind if these things were consequential that this classification would not be the same as it now is. Whether that is a fact or not, I can't prove it.

Q. These are the most recent and up-to-date rules which you were good enough yourselves to supply the Commission with?

A. And explain.

Q. And these are the best they have been able to work out up to date anyway?

A. With the situation that actually exists.

Q. Now, on page 145, I have just one more Account to call to your attention, and that is over in "Operating Expenses - Transportation", and it says:-

"This Account shall include the cost of telegraph and telephone operation not provided for elsewhere".

Now, Mr. Liddy, in any event, whether your method is right, or the only other method that we have in Canada, the Canadian National method of accounting for the revenues, you account for the revenue from commercial telegraph operations in your Other Income. The C nadi n N tional account for it

in its Rail Income. Now, whether or not you are right, or the Canadian National is right, may I take it from what you have said, that the Board of Transport Commissioners should have the power to prescribe a uniform set of rules which would select the method, select which of these two methods should be the one to be followed?

A. If they deem that necessary, yes - I have no objection whatsoever.

THE CHAIRMAN: Would they have any different results on questions of freight rates and so on?

MR. FRAWLEY: Well, yes, sir.

THE CHAIRMAN: Well, explain that.

MR. FRAWLEY: Well, because, when we come before the Board in a rate case, sir, we find that the net revenue of the Canadian Pacific Railway from its commercial telegraph operations is shut away from us. They are in the account known as Other Income (I use the word "account" there precisely) and so the railway argues to the Board that the financial need of the Canadian Pacific Railway must be determined without any regard whatever to the monies which they have earned from their commercial telegraph operations, and to make the point clearer, my lord, they say the same about the net revenue from the commercial telegraph operations as they say about their dividends from the Consolidated Mining and Smelting Company. Now, they put them all together - -

THE CHAIRMAN: What would you do in that case? Would you put them in including the mines and telegraphs?

MR. FRAWLEY: No, I would draw a distinction.

THE CHAIRMAN: How far do you go?

MR. FRAWLEY: We would put, sir, all of the revenues which you find on page 13 - if you will look at

page 13, of the 20 Per cent Case or indeed the Exhibit, to bring it up to date, the Exhibit 189 - -

THE CHAIRMAN: Well, you would have those?

MR. FRAWLEY: But I would exclude Number 9, sir, that is "hotels".

THE CHAIRMAN: You would exclude them?

MR. FRAWLEY: Yes, as far as the submission of Alberta is concerned, we think that each one of these items 1 to 8 should be included in rail revenue.

THE CHAIRMAN: 1 to 8 inclusive of Exhibit 189?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And any others

MR. FRAWLEY: No, we stop there.

THE CHAIRMAN: You would exclude, for instance, hotels and the smelters?

MR. FRAWLEY: Yes, and the smelter's dividends. That is our position.

COMMISSIONER ANGUS: Well, Mr. Frawley, won't that affect this question of accounting? If it was decided to take your view as to whether those should be included or not, then the accounts would conform naturally to that view, but if it is decided to exclude this type of account from the yardstick railway's earnings, then the account would naturally exclude it?

MR. FRAWLEY: Oh, yes, sir.

COMMISSIONER ANGUS: So, isn't it approaching it in a rather circuitous way to deal with the accounts before deciding that question of inclusion or exclusion?

MR. FRAWLEY: Oh, I have a submission in regard to segregation. I say that must go to the Board. I don't know, with respect, that it makes too much difference if you

approach it from the account; it has got to be brought there both ways.

THE CHAIRMAN: What must go to the Board?

MR. FRAWLEY: The segregation of accounts, sir. I say that the Board must decide. The Board of Transport Commissioners, now, must decide with respect to this Other Income of the Canadian Pacific Railway.

THE CHAIRMAN: Then you mean that it must be left open to the Board to decide whether or not "hotels", for instance, should be excluded, and smelters?

MR. FRAWLEY: Yes, and the Alberta segregations of all these things that are now in Other Income.

THE CHAIRMAN: You see, you are leaving something very important to the Board there.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Do you think it is proper to leave that to the Board?

MR. FRAWLEY: Yes, because I say this is a regulated company. The Canadian Pacific Railway Company by and large is a regulated company, but they say: "We have many aspects of our business which are not regulated". I think the regulatory body should have the right to say what is subject to its regulation from the standpoint of revenue and expenses.

THE CHAIRMAN: Now, has the conduct of the Board in respect of these matters been agreeable to you so far?

MR. FRAWLEY: I might say it this way, sir. We have argued that Other Income, if it is not to be taken in - we did make an argument originally that Other Income should be taken into account, and we at one stage put it to the Board that a good many of these things should be taken into

account, but our final statement to the Board, was, that if Other Income is not to be so taken into account, then at least Other Income must bear its proportion of corporate obligations, namely, fixed charges and dividends, and finally our submission made to the Board in the last analysis was that fixed charges must be apportioned as between rail and non-rail and that dividends must be apportioned as between rail and non-rail.

THE CHAIRMAN: Then, after you had apportioned them what would you do with them?

MR. FRAWLEY: Then you only charge to rail that portion of the fixed charges which have been apportioned to rail and you would then leave to be borne by Other Income, that portion of the fixed charges which have been apportioned to non-rail.

MR. COVERT: That makes the requirements smaller, Mr. Frawley?

MR. FRAWLEY: That makes the rail requirements smaller, sir, and when you do that as to dividends, it makes the rail requirements still smaller, and then the freight rate increase is only arrived at as a result of the increase of that reduced financial need.

THE CHAIRMAN: We know now where you stand, and we will hear your argument later.

COMMISSIONER INNIS: Could you say, Mr. Liddy, in this Exhibit 189, whether this is a normal state of affairs as to the various items on the account? You see, it is only for 1947.

THE CHAIRMAN: Before we get down to actual accounting, these questions which I might call questions of principle, have first to be determined.

MR. FRAWLEY: Yes, sir.

THE CHAIRMAN: It is only in case we determine everything according to your system that the accounting would then have to follow?

MR. FRAWLEY: Yes. Well, I agree with Professor Angus, that actually that is the precise way to do it - arrive at your segregation and then the accounting matters will fall in.

THE CHAIRMAN: That is why I have been asking you what do you really want in the way of railway requirements and so on, and you have told me now.

MR. FRAWLEY: All this discussion and the whole of Mr. Liddy's evidence is directed to the direction which your lordship has and the Commissioners have under paragraph (d) of Section 2 of the Commission, because it is really uniformity of accounts that I am directing my mind to, and to put the matter clearer, sir, would you look at Exhibit 189, and you said to me a moment ago, sir, that I was now placing in the hands of the Board a quite important discussion. I realize that but - -

THE CHAIRMAN: You are going to the actual accounting?

MR. FRAWLEY: That is right, but I think it is necessary because - -

THE CHAIRMAN: And you still keep that attitude?

MR. FRAWLEY: Oh, yes, sir.

THE CHAIRMAN: That the Board should be given the power to say whether or not certain things are rail and non-rail

MR. FRAWLEY: Yes, sir, exactly. I think I can illustrate it if you look at 189, and we take the case of

the Toronto Terminals Railway. Now, I have no hesitation in making a statement to the Commission that the Board should have the right to say whether or not the revenue from the Toronto Terminals Railway Company, the Canadian Pacific undivided one half of it, should go into rail or non-rail. I think that is fundamental.

COMMISSIONER ANGUS: Has it that right now?

MR. FRAWLEY: That raises a question, sir, that I think I should call to your attention on page 13. If they have not that right now, sir, even if they have, and the Canadian Pacific argues that they have, the Board themselves they think have not - -

THE CHAIRMAN: The Canadian Pacific argues that the Board has that right now?

MR. FRAWLEY: Yes.

THE CHAIRMAN: But the Board rejects that?

MR. FRAWLEY: The Board said at page 13, when they were dealing with these same revenues which we have here on Exhibit 189, they said:-

> "Counsel for the respondents have also maintained, that if Other Income is not to be considered in fixing the level of freight rates, that this Board exercise active control over the establishment of what is rail income and what is Other Income".

THE CHAIRMAN: That is what the provinces ask for?

MR. FRAWLEY: So you will see, I am supported in taking this position:-

> "The foregoing contention points directly to a fundamental difficulty experienced by the

Board, that the Railway Act does not in its present form give the Board authority to control the accounting procedure of the railways in the manner advocated by counsel".

THE CHAIRMAN: It is more an accounting procedure?

MR. FRAWLEY: Much more.

THE CHAIRMAN: Because the accounting procedure would only follow as soon as jurisdiction is determined?

MR. FRAWLEY: In my respectful submission, in a matter of that kind, without worrying too much about whether our contention or the Canadian Pacific contention is right, it should be made clear,.

THE CHAIRMAN: Well, as I understand it, the Canadian Pacific's contention is, that the Board is mistaken when they say that.

MR. EVANS: I think, with respect, they are wrong here, but what I am saying to this Commission is, that if there is any doubt about the Board's power to establish a uniform classification of accounts, we are not here objecting to that, but I would, if my friend is going to argue that paragraph and what it means, I would like to say this, that the Board for many years and in practically every rate case has ruled time and time again on this question of Other Income.

THE CHAIRMAN: And ruled in what direction?

MR. EVANS: They have said in effect, that "We will not take into account in fixing freight rates, the income received from other than rail operations". Now, that is a matter of principle. Now, this paragraph, in my respectful submission, does say, that the Board considers it lacks power to deal with accounting procedure.

On that one matter, I think with respect, they were wrong, but on the matter of principle, whether or not you exclude or include Other Income, it quite obviously would be impossible for the Board to carry out its duty under the Railway Act to fix just and reasonable rates, unless it could consider those as quite apart from accounting procedure. They might be completely lacking in accounting procedure, but they can and they have determined the matter of principle on many occasions.

MR. FRAWLEY: Now, my lord, when my friend speaks of the matter of principle, you see how unsatisfactory the situation is. Other Income relates all the way from commercial telegraph revenues to, say, the dividends from the sale of chemicals at Trail B.C. There is a difference there. Of course there is a difference, and the problem is what is properly classified as rail income. That is the point, and the Board should be the one to say, and we will have to be content after a proper argument with what they say, and we would hope that they would say that commercial telegraph revenues should go to rail, that the Toronto Terminals Railway operations should go to rail, and, say, the smelter's revenue should go to non-rail. Those are just illustrations.

THE CHAIRMAN: But were you content with what they said in that 21 Per cent Case in that respect?

MR. FRAWLEY: No, we were not content and we were particularly not content, because we thought that at the very least Other Income should have been asked to bear its portion of the corporate needs of the company.

THE CHAIRMAN: Although you were not content, then you would still say that jurisdiction in the matter

should remain with them?

MR. FRAWLEY: Oh, yes. We are now before a Commission which is going to lay down some rules for this Board, and now we are actually on the question of what should the powers of this Board be from now on.

THE CHAIRMAN: If I understand you correctly, they should be the very same powers under which they decided the certain things of which you did not approve?

MR. FRAWLEY: Except that what they do should be made much clearer, sir. There should be a direction in whatever authority is given to them to set up uniformity of accounts.

THE CHAIRMAN: Before you get to uniformity of accounts?

MR. FRAWLEY: I am using "uniformity of accounts" broadly, and not too accurately probably. There must be a larger power -- it must be made abundantly clear what the Board should determine and that their word is final.

THE CHAIRMAN: Now, let us take an extreme case. Take this enterprise which we have been calling "smelters". Would you wish the Board to say whether or not that enterprise should be taken in as rail or non-rail?

MR. FRAWLEY: I would leave that to the Board, yes, sir.

THE CHAIRMAN: Would you, Mr. Evans?

MR. EVANS: Yes, sir, but I think quite obviously I would have to say that I could never while I had a breath left fail to contest against any finding that the mining company should be taken into the rail account.

(Page 17026 follows)

---(On resuming):

COMMISSIONER INNIS: Q. I just want to go back to the question, Mr. Liddy, as to the normal character of those figures in Exhibit 189. Are those items subject to considerable fluctuation over a period of years?

A. Yes, they are, Dr. Innis. Take the first item on Exhibit 189, communications: For the year ending December 31, 1947, the net earnings of the communications department were $1,068,000; in 1948 they had shrunk to $33,500.

THE CHAIRMAN: Q. In what year?

A. 1948; that is the next year. And in 1949 they were $813,000. There was a 15 per cent increase in communication rates sometime during the year 1949. But there are wide fluctuations. Now, I think your question related more, perhaps, Dr. Innis, to whether or not this amount shown on this exhibit was normal.

COMMISSIONER INNIS: Q. Yes, that is right. I wanted to find out whether, for example, a deficit was involved in these various items -- what Mr. Frawley's position would be.

MR FRAWLEY: Well, we have to be consistent. If we are going to take the profits we would have to suffer the deficits.

THE WITNESS: Well, take in that connection, Dr. Innis, the Northern Alberta Railways. They had an income surplus of $124,000 -- that is our proportion of the surplus -- in 1947, but in 1948---

MR FRAWLEY: Q. You share that with the C.N.?

A. ---there was a deficit of $177,000, and in 1949 that deficit is increased to $211,000. Now, take hotels, for example---

MR EVANS: Q. Is that our proportion of the total deficit you are speaking of, Mr. Liddy?

A. I am sorry, Mr. Evans. That is our proportion; I would like to make that clear.

Q. The total deficit would be double those figures?

A. That is right. I would just like to mention hotels. At the present time, as everybody knows, hotel accommodation is at a premium, and hotels are probably doing better than average, so that I would expect over a period of years that perhaps hotel earnings would not be as high as shown in this statement.

COMMISSIONER INNIS: Well, I am wondering under those circumstances whether the prospect of increase and decrease and fluctuations does not perhaps mean that too much attention is being given to all these items one way or the other.

MR FRAWLEY: Well, for instance, we speak of communications. It would have reduced the rail need by a million dollars.

MR EVANS: You have got to have something given to the investment in communications.

MR FRAWLEY: We are talking about requirements. This is the income which communications earned in 1947. I say that should have been added to railway income. Now, if it should be something less because something should have been credited for investment -- whatever it is, if it is properly so closely allied to rail that it should be treated as rail, then we should take the net profit, and if there is a deficit that should be charged against rail. It may not mean very much, sir, in the end.

COMMISSIONER ANGUS: Mr. Frawley, is your general contention that on principle these items of income should be included as rail income, contingent on the Board proceeding on the requirement basis as opposed to the rate of return

basis?

MR FRAWLEY: I think that that certainly follows, sir. If you are on a rate base basis, then other considerations apply. You would add the investment in these properties to the rail investment.

COMMISSIONER ANGUS: Well, if you were on a rate of return basis, for instance, and a rate of return of the order of 8 per cent were allowed, you would lose by including these items with the others.

MR FRAWLEY: That may be, sir; but there is a principle involved, and it is not, with respect, I think, a merely academic matter. The freight shippers of Canada should not be asked to pay on the basis of financial need, which excludes revenues and net income which are properly rail income. That is what it amounts to, sir. It just comes to the simple fact of wherein lies the revenue.

Q. Now, Mr. Liddy, I want to talk to you for a few minutes about depreciation. First I want to just put on the record the numbers of the I.C.C. accounts.

A. Perhaps before you go to that subject, Mr. Frawley, if the Commission desires it I am sure they can get from their accounting expert on the Commission what the classification says about these various subjects. It is all set out here in the classification, what shall be done under those circumstances.

THE CHAIRMAN: Q. You are talking now of depreciation?

A. No, I am talking about this rail and non-rail.

Q. You are going back to the other?

A. Yes.

Q. I beg your pardon.

A. May I just for the purpose of the record point out that on pages 241 of the classification there is a form of

general balance sheet set out.

Q. Page 241 of what?

A. Of this classification, Exhibit 182, sir.

Q. Yes, under the chapter on classification?

A. Yes, sir, 241. May I point out that the general form of the balance sheet makes it very clear that you shall put at the top there, account 701, the road and equipment property, and you shall put into account 705, which you will find down later in the page, miscellaneous physical property. Now, you will find on page 211 the textual matter which says what shall go.

Q. You are going back to another page?

A. Yes, 211, which says what you shall put in those respective accounts. Let us look at page 211.

Q. Road and equipment property?

A. Yes. Notice it says, "Shall include the accounting company's investment in road and equipment used or held for use as transportation property."

Now let us look at page 217, which describes what shall go into account 705. Account 705, on page 217, is described as :

"This account shall include the accounting company's investment in physical property other than property assignable to accounts 701 and 702, including hotels, restaurants, power plants, etc., which are not operated by the accounting company or another carrier in connection with its transportation service."

Now let us look at the form of the income account, page 191. That shows the form of the income account. Notice at the top there are accounts under (A) for Railway Operating Income. Notice later on down the page there is the word "Other Income", and the first item there is "Account 502. Revenues from miscellaneous operations."

COMMISSIONER ANGUS: Q. Can you tell us, Mr. Liddy, if these rules in the United States are designed to help in fixing rates, freight rates, on the basis of requirements or on the basis of earnings, on a rate base?

A. They have been going on the basis of a rate base for a number of years.

Q. In that case these rules, strictly, would not be related to the same purpose as the Canadian rules, assuming that the Canadian Board were going on a requirement basis?

A. That may be so, sir.

Q. It would seem very difficult to talk about transposing the rules unless we know whether the purpose is similar?

A. Yes.

MR EVANS: I think the record perhaps ought to contain this statement from me. The Board in the 21% Case, while it went on the so-called requirement basis, tested the requirements in relation to what return would be given on the property devoted to railway service, and that was the basis we went for. We asked for a percentage increase. My friends have tried to tie me to requirements and nothing else, but in our evidence in chief and in the judgment of the Board it is quite clear that we asked the Board to test what we said were proper requirements in relation to what return it would provide on railway property, and when we came to the 20% Case we specifically asked the Board to find a rate base and a rate of return, although we did not ask them for such increase as might be necessary to give the maximum return. We said, "We will accept the formula that the Board previously adopted, but we do ask you to make a finding now of an investment base and a fair rate of return," so that we cannot have any argument here as to whether it is a straight question of apportionment of distance and

fixed charges or something else. We said, "At all times you must consider what you award in the light of the return on the investment." I think that has been perhaps overlooked in the discussions of my friends, but the fact has been that we never at any time in our application said, "Give us this much money regardless of the rate of return on investment." We said at all times, "This much money is a fair requirement when measured in relation to a return on investment." In the United States, of course, it is quite a different situation. In the United States all wrailways go in on one application. Now, the requirements of each of the several hundred railways will all be different, and the rate of return on each of several hundred railways will all be different. What they have done there is to take the total railway property investment as shown by the books of the company, depreciated, and they have calculated an average rate of return on groupings of railways -- the Pocohontas group, the eastern carriers, the western carriers and the southern carriers -- but they do not take in the investment of each railway and the return for each railway; that would be a physical impossibility. I just wanted to clear the record on that.

COMMISSIONER ANGUS: But their accounting rules are designed to facilitate the type of approach that they propose to use.

MR EVANS: Well, I would say not, without being an expert on accounting. It seems to me that the accounting rules were designed to provide what the Interstate Commerce Commission felt was an accounting classification suitable to United States conditions, and I would respectfully suggest that they probably were not influenced in the slightest degree on the way they went about measuring what the needs

of the railways were, because it seems to me that as a matter of principle whether you have uniform accounting or whether you have not, you have got to meet that question of principle as to whether in a freight rate application you are going to include communications revenue, for instance, because when you come to a communications rate case you have then got to establish what are the needs of the communications department or the communications company, whatever it may be, you have got to fix the rates for telegraphs, and the Board has that power today, and does; you have got to fix those rates in relation to the requirements of that business or the needs of that business, whether you go on a rate of return or anything else. Now, the communications department of the Canadian Pacific has no outstanding debt as such, it is not a separate company, and yet in effect my friends would argue that the communications department could have no return of its own on its investment -- take in the revenue because you happen to have fallen into the trap of going on requirements, and don't pay any attention to the twenty-two-odd million of investment in these commercial operations. Now, to me it is a very simple principle. All this matter of principle can, and I hope will, be decided, but the Board is going to have to consider all these questions. It certainly can consider them now from a standpoint of rate-making; it is only a question as to how far there is power to enforce a uniform classification, and if there is any shortcoming in that power---

THE CHAIRMAN: Enforce what?

MR EVANS: A uniform classification. If there is any shortcoming in that power, we are here to say we are quite content that that should be made good.

MR FRAWLEY: My lord, it is too bad, perhaps, that

Mr. Evans has once more raised the question of the manner in which the railways presented their case to the Board of Transport Commissioners, but, for the record, I must disagree with what he said with regard to the matter of a rate base and rate of return. It is made abundantly clear on page 24 of the original judgment of the Board in the 21% Case, and I read this:

> "In previous steam railway rate cases the Board has not based its decisions on the relationship of net railway operating income to the investment in railway property used in transportation services. Nor do the railways in their present application ask the Board to fix a rate of return on their investment in railway property used in transportation services.
>
> I think, however, that we might appropriately have some regard to the rate of return on the amount invested by the railways in railway property used in transportation services, as a test by which the reasonableness of the rates may be judged. One difficulty, however, is in ascertaining the value of the railway properties so used in transportation services.
>
> The determination of the value of investment in railway property used in transportation services in Canada has never been undertaken. And the question is much too extensive and complicated a problem to be taken into consideration at this time."

Now, the railways came in; the records are there for the Commission to look at; the application is there. They asked for so many dollars to give them money to pay dividends, fixed charges and surplus, or, as they originally called it, something for additions and betterments. Now, so far as the 21% Case is concerned, it is as clear as it can be that, although my friends were clinging to the rate

base as a sort of side issue, the Board could test it; after they arrived at what they should give them under the heading of requirements they might test that in the light of what a rate of return on a rate base would be. That is what the railways alleged before the Board. The Board found that it was quite impossible for them to come to any such conclusion, because it had never been determined, and that was precisely the position we took before the Board. The rate base rules had to be satisfied, only one of which I will mention now, and that is, was all this money prudently invested, and is it now, all of it, used and useful in transportation services?

THE CHAIRMAN: You say that was the attitude you took before the Board?

MR FRAWLEY: Yes, sir.

THE CHAIRMAN: Is it the attitude which you would take again before the Board?

MR FRAWLEY: Yes, until they prove a rate base, sir.

THE CHAIRMAN: And you want nothing done to limit or expand the power of the Board to hear your view and to enforce it?

MR FRAWLEY: On rate base? No. We wait for the railways to come in and try to prove a rate base.

THE CHAIRMAN: But when they are in you are there. You are willing to go to the Board again and advance these same arguments?

MR FRAWLEY: If the railways come in and ask for a rate of return on a rate base?

THE CHAIRMAN: Yes.

MR FRAWLEY: Yes, we will be there for the purpose of seeing that a rate base is really established and proved according to principles; that is right, sir; and that re-

quires no change in the legislation, sir, as I see it, at all. The railways can come tomorrow -- in fact, my prophecy is that they would like to go the very next one -- and everybody fears there will be another one soon -- they would like very much, sir, I think, and I say so seriously, to go on a rate of return on a rate base. I do not think by that time they will ever have the rate base ready to be proved, but that is just by the way.

Now, sir, I want to carry the history of it through, because my friend still is clinging, as I say, to the rate base, and he has made the amazing statement now this morning that he wants this Commission to find that he has established a rate base, and I suppose he is talking---

MR EVANS: Where do I say that?

MR FRAWLEY: I understood you to say that just a moment ago, that you want this Commission to say that a rate base has been established.

MR EVANS: I did not say that.

THE CHAIRMAN: I thought I understood that it might be established.

MR FRAWLEY: In the evidence that he has presented before this Commission?

THE CHAIRMAN: By the Board; isn't that right, Mr. Evans?

MR EVANS: Yes. I never asked this Commission to establish a rate base.

MR FRAWLEY: I was afraid that he wanted Exhibit 181 to be taken as a rate base.

MR EVANS: I do not want to be misunderstood. I said we asked the Board in the 20% Case to establish a rate base and to fix a rate of return, while at the same time we said, "We are not asking for the increase that would be necessary to provide what we consider a fair return. We

ask you to fix it now." Wewere making this application on the basis of the formula they found in the 21% judgment, and we asked specifically, and in my submission proved, a rate base in that case. I am not asking this Commission---

THE CHAIRMAN: But the Board did not agree that you had proved it.

MR EVANS: I was going to speak to this the other day, but my friend Mr. MacPherson asked me not to speak to it when Mr. Smith was not here. Mr. Smith made the statement the other day, in challenging one statement I made, that he had not said to the Board there had to be a valuation. Now, the position they took was that there had to be a valuation.

THE CHAIRMAN: That is the position the Board took?

MR EVANS: That is the position my friends took.

THE CHAIRMAN: Not the Board?

MR EVANS: Not the Board, no.

MR FRAWLEY: That is not the position we took at all.

MR EVANS: Now, I want to go into this, because I have the record here to show what position you did take.

MR FRAWLEY: The only thing about Mr. Smith being absent is, he would probably want to go into it all again after he reads the record.

THE CHAIRMAN: But, Mr. Frawley, you have been telling us what position the railways took.

MR FRAWLEY: I had not finished, sir.

MR EVANS: Here is what Mr. Smith said---

THE CHAIRMAN: Would you go on, Mr. Evans?

MR EVANS: ---at page 1414---

THE CHAIRMAN: This is Mr. Smith?

MR EVANS: This is Mr. Smith, at page 1414 of the 20% Case. Now, bear in mind that the other day when we were discussing this thing I made this statement -- this is at page 16661:

"I would say no, because you made a suggestion" -- I was there speaking to Mr. MacPherson --

"that you could not have a rate base without an estimate of value or at least Mr. Smith did.

MR SMITH: That is not correct - unequivocably not correct."

Now, this is that Mr. Smith said -- I am reading from the transcript in the 20% Case:

"MR SMITH: I do not want to prolong the argument at all, my lord, but I would like to point out the futility of attempting to set rates on the basis of book values, rather than on the physical values of the property used and useful, which is the only proper measure, I submit . . ."

Then there was another statement---

THE CHAIRMAN: Have you given the pages and the volume for the record?

MR EVANS: That was page 1414. And previously, on page 1409, Mr. Smith said this:

"It would be impossible to base it on a rate of return unless you have a rate base. That is the essential thing in all regulated bodies, all public utilities, which are under the practice adopted not only by the Interstate Commerce Commission, but in all the state and provincial public utility acts, based on a rate of return which must be on a valuation arrived at of the property used and useful."

And the whole case of the provinces was that the book values could not be looked at, that there must be a valuation. They

have perhaps changed their views now, but that was the objection they raised before the Board.

THE CHAIRMAN: Did not the Board say something similar?

MR FRAWLEY: Yes. Now, I was going to continue. So much for what the Board said in the 21% Case, and then in the 20% Case, in the judgment of September 20, 1949, they said -- and this has already been read into the record here -- at the top of page 15:

> "However I do not believe that such considerations justify me in determining without further evidence and investigation that the investments have been prudently made, and that the revenues have been sufficiently accounted for."

And, in connection with what my friend has just said, that we asked for a valuation, nothing but a valuation, what the Board says is not very well tuned to that sort of submission, which, I may say to the Board, over all, we did not make. We challenged the mere submission of a lot of figures to the Board without a witness going into the witness box or some other evidence to show that it was prudently invested and that it was all now used or useful in transportation services. It is as simple as that, the position we took.

(Page 17040 follows)

THE CHAIRMAN: That is simple to state, but is it simple to do? You say it is a thing that must be done?

MR. FRAWLEY: That is right; it must be done to establish a rate base.

MR. EVANS: My friend has not quite stated that correctly, I must say.

MR. FRAWLEY: I am trying to, Mr. Evans.

THE CHAIRMAN: What is incorrect?

MR. EVANS: He said we didn't put a witness in the box to prove that that was a proper rate base.

MR. FRAWLEY: I say you didn't put a witness in the box to prove that was a proper rate base.

MR. EVANS: But we put in an expert who said that our depreciation base was the absolute minimum as our rate base.

MR. FRAWLEY: You took the position that you did not have to establish substantively that it was a prudent investment, that it was an automatic presumption that it was prudent investment. I say that statement flies in the face of every judgment in the Supreme Court of the United States.

THE CHAIRMAN: You could not give evidence to say that anything was prudently invested.

MR. FRAWLEY: That might be difficult.

THE CHAIRMAN: You see how difficult that gets.

MR. FRAWLEY: Unless you go to the other alternative and get in valuation of something that is there present. . .

It seems to me we are getting far beyond the point I was intending to make. I must continue to challenge my friend every time he says the Board had any regard to his rate base; I say that whether it was the first Board on the 21 per cent case, or the next Board on the

20 per cent case, or the last Board on the 7.4 per cent case, had acknowledged or had accepted at all the evidence offered by the Canadian Pacific Railway with respect to the rate base and rate of return --

THE CHAIRMAN: You approve of the Board's conduct in that case?

MR. FRAWLEY: Yes. To find that there had to be a rate base would have been wholly unwarranted and untenable .

MR. EVANS: My friend Mr. Frawley has made another of his sweeping statements. What he said about prudency of investment has been supported. . . That there is an onus on us to prove that our expenditures on property are all prudent, has been approved by every judgment of the Supreme Court of the United States. Now the law of the United States is perfectly clear on that subject. It is that:

> "Prudency creates no particularly difficult problem if the Brandeis concept --"

That is Mr. Justice Brandeis.

> "-- is followed, because the prudency is assumed until proved otherwise."

THE CHAIRMAN: The onus would be shifted back to Mr. Frawley?

MR. EVANS: Yes. I am reading now from Mr. Priest's note on the argument; he is referring here to cases on prudent investments. I think he also referred to another case . . .

MR. FRAWLEY: What is the citation?

THE CHAIRMAN: Who is he?

MR. EVANS: Mr. Priest, sir.

THE CHAIRMAN: He is a witness.

MR. EVANS: No, an expert brought in.

THE CHAIRMAN: But he was a witness.

MR. EVANS: No. He was a counsel admitted to practise before the Board.

MR. FRAWLEY: Not a witness, just a lawyer.

MR. EVANS: The question of prudent investment looms large in the discussion before the Board. Mr. Priest makes that clear at pages 4682 and 4684 and the few pages that follow.

THE CHAIRMAN: He met it by citing certain cases?

MR. EVANS: Yes.

THE CHAIRMAN: What are the cases?

MR. EVANS: I was trying to turn them up. One looks like a citation from the Hope Natural Gas case.

THE CHAIRMAN: This is prudent investment?

MR. EVANS: This is an alternative text by Thompson and Smith entitled "Public Utility Economics", published by the McGraw-Hill Company in 1941. I will be glad to look up any other case; I haven't got them at my fingertips.

THE CHAIRMAN: This one refers to a book?

MR. EVANS: Yes, this is a textbook referring to the cases on the subject. I read also from that book:

> "Prudency creates no particularly difficult problem if the Brandeis concept --"

That is Mr. Justice Brandeis.

> "-- is followed, because there prudency is assumed until proved otherwise."

MR. MacPHERSON: My lord, I want to say one word in connection with this rate case again, and make a statement on what the law is. We discussed it the other day, and there is no question as between my friend Mr. Evans, my friend Mr. Frawley and myself as to what are the leading cases in the United States. The point is

that in so far as the C.P.R. is concerned in the 20 per cent case they sought to establish a rate base, based on what is known as Exhibit 4949; and sought simply from witnesses to say that these figures are from the books of the company, and to have the Board then say that since these figures are in the books of the company, without any proof as to . prudency or anything else, that since they were from the books of the company that consequently they should establish a rate base. We definitely challenged that position, and that position was upheld.

THE CHAIRMAN: Do you say these cases do not find prudency to be presumed?

MR. MacPHERSON: No. What I say, my lord, is this, that in these cases that are cited -- the leading case, for instance, the Hope case, that in that case the Federal Power Commission of the United States had a completely independent board of accountants and engineers and others who examined with great detail the accounts and vouchers and everything else in connection with the organization; and in this instance there was no such examination at all, there was no such independent valuation, and all that our friends were asking the Board to do was on the strength of the evidence represented in 4949, that it be taken without any independent examination such as there was done in the most thorough fashion before the Federal Power Commission in the United States.

MR. EVANS: I wish you would be fair --

THE CHAIRMAN: Mr. MacPherson, are you satisfied with what the Board did in that case on this question?

MR. MacPHERSON: Quite. I am only quarrelling with my friend --

THE CHAIRMAN: Then you are not asking us to make any change in the power of the Board in this respect?

MR. MacPHERSON: No, not at all.

THE CHAIRMAN: Neither is Mr. Evans, as far as I can see.

MR. MacPHERSON: I am not now --

THE CHAIRMAN: Then is there any point in arguing the case before us, if we are not to do anything about it?

MR. MacPHERSON: I don't suppose there is . . .

MR. FRAWLEY: I entirely agree with what you say, sir. There is no point in arguing the rate of return or the rate base before this Commission. Let the Canadian Pacific Railway go to the regulatory body, and we will all be there to see what kind of a case they make out.

MR. EVANS: I have a case I would like to put on the record, if your lordship will permit me.

THE CHAIRMAN: Yes.

MR. EVANS: From Mr. Justice Brandeis, 67 Supreme Court Reports, Lawyers' Edition, at page 986, Southwestern Bell Telephone Case.

THE CHAIRMAN: What year would that be?

MR. EVANS: I have no note of the year. It is not a very new case. He deals with the term "Prudency of investment", and concludes his remarks with the quotation I had in mind:

> "Every investment may be assumed to have been made in the exercise of reasonable judgment unless the contrary is shown."

MR. MacPHERSON: I think my friend will agree with me -- in any event that is the case that changed the law in the United States, the Hope case.

MR. EVANS: No, not that law.

THE CHAIRMAN: That is the Hope case?

MR. FRAWLEY: The Hope Natural Gas case.

THE CHAIRMAN: Where is that found?

MR. MacPHERSON: I have not the citation.

MR. O'DONNELL: It is 1944, 320, U.S., 591.

THE CHAIRMAN: That is 320 United States Supreme Court?

MR. O'DONNELL: Yes, at page 591.

MR. FRAWLEY: I think my friend's case, the one he suggested, was 67 U.S .

MR. FRAWLEY: 67 Lawyers' Edition.

THE CHAIRMAN: You are certainly educating us in our law, if we did not know it before.

MR. EVANS: I would like to answer Mr. MacPherson, when he says that the Hope Natural Gas case changed the law on prudent investment. There is no foundation for that statement.

MR. MacPHERSON: I am not going to get into an argument on that. What I say is the Hope Natural Gas case was a leading case. It changed the law - the extent - but I don't want to get into that.

THE CHAIRMAN: It is a reading of the cases.

MR. MacPHERSON: Yes, a reading of the cases.

MR. FRAWLEY: I don't know how my friend could ask this Commission to come to any conclusion on a rate base and rate of return. I assure him if we were asked to go into that and argue principally as to what constitutes a rate base, that we had better set aside a separate week to argue it.

THE CHAIRMAN: Then there would be no use in setting aside a week, a day or an hour, unless you want us to do something about it.

MR. EVANS: I apologize.

THE CHAIRMAN: As far as I can see, nobody wants

us to do anything.

MR. EVANS: I apologize. I took Mr Frawley's sweeping statement, and I did not think it should remain on the record unchallenged.

THE CHAIRMAN: Yes. Now we have the witness.

THE WITNESS: I can say now, sir, my subject is quite subordinate to what has just been said.

THE CHAIRMAN: Well, it is an inspiring subject.

MR. FRAWLEY: I don't know what it inspires.

THE WITNESS: If you care to put on the record something more about how precise the accounting classification is with respect to some accounting subjects which have been discussed --

THE CHAIRMAN: Put it on the record.

THE WITNESS: Before the interruption I just pointed out that the form of income statement makes very clear that there shall be operating income from railways operated, and there shall be other income which are not in railway operations, or not as to the railway operations. I would like to go to page 53.

THE CHAIRMAN: Q. Of what?

A. Of the classification. The classification says this:

> "1. Operating Accounts.-- The accounts of this classification are designed to show the revenues and expenses (including the maintenance of the facilities used) of the carrier's railway operations, including rail-line transportation, water-line transportation, if any, and services incident to transportation."

Now services incident to transportation are included in the classification: dining and buffet cars, that is,

meals on passenger trains.

MR. FRAWLEY: Q. Where do you see that?

A. It is in the classification.

Q. But where do you see that? You are defining the services incidental to transportation?

A. Yes. That is in the classification under primary accounts, dealing with the accounting for dining and buffet car service, storage, freight, baggage, etc.

THE CHAIRMAN: Q. I suppose in this country it would include Pullman service?

A. Yes, incidental operations of that kind.

I would next like to turn to page 54, Miscellaneous Operations; that is services incidental to transportation; but this is an account called "Missellaneous Operations", and reads:

> "The revenues and expenses of miscellaneous operations involving the use of such facilities as hotels, restaurants, grain elevators, storage warehouses, power plants, cold storage plants, etc., shall not be included in the accounts of this classification unless the operation of the facilities is conducted by the railway companies in connection with furnishing transportation services."

MR. FRAWLEY: Q. That is very good of you to tell us that item.

A. Now I want to go to page 55.

THE CHAIRMAN: Q. That means hotels might be used in furnishing transportation services?

A. Yes; if it is incidental in connection with furnishing transportation services. But there are no hotels of the Canadian Pacific that are so conducted.

MR. FRAWLEY: Q. That is a large answer, Mr. Liddy.

A. Yes, a large answer, Mr. Frawley.

I would like to go now to page 55, Stockyards:

"The revenues and expenses arising from the operation of stockyards shall not be included in operating revenue or operating expense accounts unless the operation of the facilities is conducted in connection with the transportation of livestock."

THE CHAIRMAN: Q. That is, when you get another point to be determined?

A. Yes; but the full essence is, is it conducted in connection with transportation services, or is it conducted in connection with slaughtering service or some other commercial service.

Now I would like to go to page 59, Accounts for Operating Revenues:

"The accounts provided for operating revenues are designed to show amounts of money which a carrier becomes entitled to receive from transportation and from operations incident thereto."

That is, as I say, dining and buffet car operations, baggage and storage on freight, and so on.

I would like to go now to page 61, Transportation-Rail Line:

"The primary accounts included in this general account are designed to show amounts of money which the carrier becomes entitled to receive or which accrue to its benefit from service rendered in transporting property or persons by rail line."

I would like now to turn to page 66.

THE CHAIRMAN: Q. That last quotation was from page 61, was it?

A. Yes, sir.

Q. Where?

A. Right at the top of the page, sir.

Now I would like to go to page 66. Now we come to Mr. Frawley's incidentals.

MR. FRAWLEY: Q. Your incidentals.

A. That is at the bottom of page 66, reading:

"The primary accounts included in this general account are designed to show the amounts which the carrier becomes entitled to receive from services rendered incidentally with rail-line and water-line transportation, for the use of facilities of which the expenses for operation and maintenance are not separable from railway expenses, and from incidental sources not provided for elsewhere."

Then it goes on to detail those incidental expenses.

THE CHAIRMAN: Q. Pardon me a moment. Carrier is provided by law to provide certain services?

MR. FRAWLEY: Yes, sir.

THE CHAIRMAN: Now, anything he furnishes in addition to that may or may not be properly attributable to his service as a carrier?

MR. FRAWLEY: That is right, sir. But the Privy Council --

THE CHAIRMAN: You might call it a minimum of what he must do. Because he is a carrier he must do certain things, but if he chooses to do more than that then in each case the question must be determined as to whether or not that was attributable to his capacity as a carrier or not.

MR. FRAWLEY: Yes. That is the problem I submitted earlier should be left to be determined by the Board.

THE CHAIRMAN: But it would have to be determined in every case. You could not have any blanket rule on that.

MR. FRAWLEY: Yes. It is not nearly as easy as the witness Mr. Liddy is making out. The Canadian Pacific Railway went through to the Privy Council last year on the question of whether or not their hotel in Victoria, British Columbia, was part of the rail enterprise.

THE CHAIRMAN: What did the Privy Council hold?

MR. FRAWLEY: The Privy Council held that it was not part of the rail enterprise, and that it was subject to the jurisdiction of British Columbia laws with respect to employment and wages and so on. I am putting it broadly. Mr. Evans will correct me --

MR. EVANS: If I may respectfully suggest, you are putting it very wrongly. The question there was whether for the purpose of provincial labour legislation the hotel was to be treated as part of the railway enterprise. It is quite a different question involving the rate.

THE CHAIRMAN: I remember that. I think the question was as to whether the provincial labour legislation applied to hotels operated by dominion railways. That was the question?

MR. EVANS: That is right.

THE CHAIRMAN: It was held that it was; but that did not answer the question.

MR. FRAWLEY: My friend said I brought in the railway freight rates.

MR. EVANS: I did not. I said it had nothing to do with the railway freight rates; it was quite a different question.

MR. FRAWLEY: Q Are you finished?

A. I was dealing with incidental revenues concerning dining and buffet cars, hotels and restaurants. May I read the note after hotels and restaurants?

THE CHAIRMAN: Where is that?

MR. FRAWLEY: Q. Page 67?

A. The bottom of page 67:

"Note.-This account shall not include the revenues from hotels and restaurants which are entirely distinct from the carrier's transportation plant --"

THE CHAIRMAN: Q. Of course that is quite right, but in each case, Mr. Liddy, the court would have to determine on the evidence whether a particular hotel or restaurant is entitled to be distinguished from the carrier's transportation plant, and so on?

A. Yes, and whether it was included in balance sheet account No. 705. That is the non-railway plan.

I think that is all I have to say, except that this bible, used by accountants in the United States has been followed for many years; they have had no difficulty. Why there should be any difficulty in Canada is beyond my comprehension.

MR. FRAWLEY: Q. Taking up what you said about the note, would you say the Palliser hotel in Calgary is entirely distinct from the carrier's transportation plant in Calgary?

A. It is conducted entirely distinct.

THE CHAIRMAN: Mr. Frawley, you are not asking to have the hotels -- ?

MR. FRAWLEY: I know; that is why I shouldn't have bothered with it; it was just Mr. Liddy's answer as to what these rules mean. . .

THE CHAIRMAN: It just shows us what a good case you would have if you wanted one.

MR. FRAWLEY: Yes, I would take him along with me.

Q. Mr. Liddy, I have a couple of things to talk to you about in connection with depreciation. First I would like to put on record the numbers of accounts under this I.C.C. classification, Exhibit 182. The first one is on page 179, Special Instructions No. 8, depreciation accounting for road property. Without reading it all or any of it, you will agree with me --

MR. EVANS: Page?

MR. FRAWLEY: Page 79.

Q. You will agree with me that under the rule of the Interstate Commerce Commission, road property is on straight line depreciation accounting?

A. In the United States?

Q. Yes.

A. Yes.

Q. Going to equipment. I don't want to spend any time on it, except to put it on the record. Please go to page 89, Special Instruction No. 24. You will see there that equipment is on straight line depreciation accounting?

A. In the United States, yes, sir.

Q. As far as this book goes it does not run into the Dominion of Canada, does it?

A. I was just making clear that the Canadian Pacific does not do that, Mr. Frawley.

Q. That is right. Just let us be clear about this: in the case of the Canadian Pacific you used the user method of depreciation for all depreciable assets, except inland steamships and work equipment, which latter instances are on the straight line. Is that correct?

A. That is correct.

MR. EVANS: There is one correction there. I put on the record the other day something which I think

you told me afterwards I should have corrected. Work equipment is now on the user basis?

THE WITNESS: From the year 1949.

MR. FRAWLEY: Q. That just leaves the inland steamships on a straight line?

A. Yes, still on the straight line.

Q. That is straight line?

A. Yes.

Q. Will you bring it into the fold later?

A. Well, we certainly feel that the user basis is doing a good job, Mr. Frawley.

Q. I don't know why you should leave the inland steamships out there?

A. We will have to let it grow a little bit.

Q. Let the inland steamships grow?

A. No, just the idea of the depreciation on user basis.

Q. Now in the case of depreciable road assets you are on renewal accounting?

A. Non-depreciable.

Q. Non-renewal depreciable assets?

A. That is ties and rails.

Q. I am summarizing the distinction.

A. That is correct.

Q. In the case of the Canadian National Railways, they are on straight line for equipment?

A. That is right.

THE CHAIRMAN: Such things as rails and ties and so on, with the Canadian National are on straight line.

MR. FRAWLEY: No. I was only on equipment for the moment, and the witness agreed with me that the Canadian National was on straight line for equipment.

THE CHAIRMAN: You are talking about renewals too.

MR. FRAWLEY: I will come to that in a moment, sir.

Q. In the case of roadway, I mean everything but equipment in the Canadian Nationl, is on retirement accounting?

A. That is right. That is the way I understand it.

Q. That is the way I understand it too.

THE CHAIRMAN: Then we will adjourn.

---The Commission adjourned at 1.00 p.m. to meet at 2.45 p.m.

(Page 17056 follows)

Friday, March 3, 1950.

AFTERNOON SESSION

THE CHAIRMAN: Before you begin, Mr. Frawley, I wish to tell everybody interested, that we intend to adjourn at ten minutes after four.

S. J. W. LIDDY - Recalled

CROSS-EXAMINATION BY MR. FRAWLEY - Resumed:-

Q. Now, Mr. Liddy, just before we adjourned, I had got you to agree with me on a very rough summation of the difference between the Canadian National and the Canadian Pacific in the matter of the depreciation methods which they follow?

A. Yes, Mr. Frawley.

Q. Now, Mr. Liddy, I did not make a note of what Mr. Evans said the other day, but I compressed it into something like this. He addressed the Commission and said: "If you are going to prescribe the method of depreciation, our submission is, that you should prescribe the user method".

MR. SINCLAIR: I think that the full statement that he made, was that the position of the Company was that the Canadian Pacific should be left free to adopt that method of depreciation that best suited its business, but that if the Commission did not feel that it was going to leave the matter free, and there was going to be a recommendation that a method of depreciation should be prescribed by statute, then the position of the company was, that the method that should be prescribed was the user method of depreciation.

THE CHAIRMAN: And you, Mr. Frawley, in that case

say, that the method which should be prescribed by statute should be the other method, the straight line?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Is that what you say?

MR. FRAWLEY: Oh, it is certainly what we say, and of course, I do not think it should be prescribed by statute at all, and perhaps my friend is not asking that either. No, he is not asking that.

MR. SINCLAIR: Definitely not.

MR. FRAWLEY: Now, Mr. Liddy, let us just discuss it informally and frankly. That does not mean what my friend has stated to be the official position of the Company--does not mean, that you are not willing to have this round table discussion about the relative merits of the two methods of depreciation?

A. No, I think we would welcome discussions, Mr. Frawley.

Q. But these would be only discussions leading to the promulgation of a uniform system?

A. Yes, you see in the United States, the Interstate Commerce Commission has leaned on the railways for advice. I would think that the Interstate Commerce Commission classification could properly be described as the classification of the United States Railways.

Q. Well now, you think then that the Board should be free, after hearing everything you have to say, and everything the Canadian National has to say and everything that anybody else interested has to say, that the regulatory body should be free then to arrive at a conclusion as to which method of depreciation should be adopted by all Canadian Railways?

A. I would think that would be a sensible thing to do.

THE CHAIRMAN: Well now, you are in agreement.

MR. FRAWLEY: Yes, there is a real measure of agreement there.

THE CHAIRMAN: The real difference is that the Canadian Pacific goes a step further, as I take it, and says, that the Board should leave the railways free. You do not agree?

MR. FRAWLEY: No, I want to be quite clear about that. The witness is telling me that the Board should have the final determination after hearing what everybody has to say and should have the final right to say in the form of promulgating a set of rules, as to which method of depreciation should be followed.

THE CHAIRMAN: But we are told by counsel that what the railway would prefer would be to have the Board leave the railways free. Isn't that right?

MR. SINCLAIR: That is right.

MR. FRAWLEY: Then that would be tantamount to arguing with the Board that they should not make uniform depreciation accounting, that matters of accounting should not be made uniform. Is that what I understand?

THE CHAIRMAN: I suppose the railways, following the point Mr. Sinclair made a moment ago, would say this, that if the railways are to prescribe one or the other, they would ask the Board to prescribe the user method. Is that right?

MR. SINCLAIR: I think I can put it this way to your lordship, that the Canadian Pacific would expect that the Board might say what assets were to be subject to depreciation accounting. Now, the Company feels that that is

more important from the standpoint of uniformity and comparability than is the method, because whatever method is used, it is not a difficult task to express the user method in straight line or to take straight line and compare it with the restated user basis, and I think that the Canadian Pacific's position was definitely that we never expected them to accept our rates of depreciation. We expected to have at any time to come forward and prove those matters before the Board, but as to the method, we feel that the Board should allow us freedom to adopt that method that we feel -- and we think we can show them that from our standpoint and from the standpoint of the users of the rail service -- is best.

THE CHAIRMAN: That is what you would argue before the Board?

MR. SINCLAIR: Oh, yes.

MR. FRAWLEY: Well, let me understand, Mr. Liddy. You are still of the opinion you have expressed to me at the beginning of my cross-examination? You feel that there should be a uniform system of accounts prescribed for Canadian Railways by the Board of Transport Commissioners.?

A. To the extent that that is possible to attain.

Q. To the extent that that is possible to attain. Now, that is your general feeling?

A. Yes.

Q. Now, when we come to the matter of depreciation accounting, we find two pretty different sorts of methods being followed, one by the Canadian National and the other by the Canadian Pacific. That is also true?

A. For equipment.

Q. To the extent that one is using user and the other

straight line, there is a real conflict there, isn't there?

A. In method.

Q. And you know it must have been a serious conflict because many long hours before the Board were spent in arguing out the relative merits of those two methods of depreciation.

A. I think most of the argument was spent in trying to get them to understand what it was all about.

Q. I did not think I would get a flat answer to that. That admits of so many qualifications, doesn't it? Now, Mr. Liddy, that being so, I put it to you, and I will put it to you again, you are willing that there should be committed to the Board, or rather you are willing that there should be committed to the Board by express statute, the right to formulate a uniform system of depreciation accounting?

A. I don't think that is necessary at all.

Q. All right, you don't go that far then.

A. That is just a part and parcel of the uniform system of accounts.

Q. It is an important part and parcel, isn't it?

A. Yes, all items are important.

THE CHAIRMAN: It is important enough to consume many hours before us.

MR. FRAWLEY: Yes, and important enough to warrant these rather apt remarks from an Assistant Chief Commissioner:-

> ""From a rate making point of view, however, in Canada, to have one of its major railways on one method of depreciation and the other major railway on another, leads to some confusion. It is more than difficult to make effective comparisons".

Now, with that in your mind, would you not agree with me, that whatever method should be adopted, and if victory rides with the Canadian Pacific it will be the user method and vice versa, but whatever method is chosen, do you not think that it is highly desirable that there should be a uniform system of depreciation accounting adopted in Canada?

A. Now, Mr. Frawley, the Interstate Commerce Commission have had these - -

Q. You can't answer my question?

A. I am going to answer it. I can't answer it as quickly as you ask it.

THE CHAIRMAN: Tell us your conclusions first. Would you answer Mr. Frawley yes, or no?

A. What was your specific question again?

MR. FRAWLEY: Mr. Reporter would you read back the previous question?

THE REPORTER: "Now, with that in your mind, you would/agree with me, that whatever method should be adopted, and if victory rides with the Canadian Pacific, it will be the user method and vice versa, but whatever method is chosen, do you not think that it is highly desirable that there should be a uniform system of depreciation accounting adopted in Canada?"

A. Well, that may be simple to some people but it is awfully difficult to me.

THE CHAIRMAN: Will you tell us what you think yes, or no?

A. I think you can have uniform accounting - -

Q. But it is the uniform system of depreciation we are after.

A. I think it would be desirable, but I do not think it is essential, sir, and my reasons for that, if you are interested - -

Q. You see, the point is, as Mr. Frawley told you in the first place, and as I pointed out, a great many hours were spent here listening to this question. It must be of some importance. The second point is, the Board itself in its recent Judgment said it was of great importance. Bearing in mind all that, then you say it is desirable?

A. Yes, that is my position, and I might point out that the Interstate Commerce Commission had optional accounting for depreciation for road property from 1914 to 1943, and yet they had uniform accounting.

Q. You say they had optional accounting?

A. Optional depreciation accounting for road property. They had a uniform system of accounts in which a railroad could follow the retirement method or depreciation method, and I say if you have both railways depreciating the same assets, though one may be on one method and the other on another, you have got greater uniformity than what the Interstate Commerce Commission had for some thirty years.

MR. FRAWLEY: Now, Mr. Liddy, the Canadian National is on straight line for equipment and on retirement accounting for everything else but equipment for roadways?

A. Except renewal accounting for ties and so on.

Q. That is just write-in and write-out. You charge it to expenses.

A. That is right, write-in and write-out. The retirement is the write-in and write-out method.

Q. But what you call renewal is, you charge it all to expenses when you take out a tie and put in a new one?

A. The new tie is charged to expenses.

Q. That is not depreciation accounting at all?

A. Not at all.

Q. So that in the Canadian National we have straight line depreciation for all equipment, retirement accounting for roadway excepting ties and rails and that sort of thing and for that we have no depreciation accounting at all?

A. Correct.

Q. That is the situation in the Canadian National, and in the Canadian Pacific we have the user method for all depreciable assets except inland steamships and we have renewal accounting, that is, in other words, not depreciation accounting, but renewal accounting for non-depreciable road assets. That is the position?

A. Yes, sir.

THE CHAIRMAN: What about the inland steamships?

(Page 17065 follows)

MR FRAWLEY: The Inland Steamships is on straight line, in the case of the Canadian Pacific.

THE WITNESS: May I explain that, sir?

THE CHAIRMAN: Q. Is it on straight line?

A. It is, sir. And may I explain, sir, that if Inland Steamships were on a user basis, such as so many trips, so much depreciation per trip -- because these steamships are scheduled, their services are scheduled -- it would amount to the same thing as user.

MR FRAWLEY: Q. Now, Mr. Liddy, I put it to you that with that situation as I have just outlined it to you, three methods of accounting in the Canadian National and three methods also in the Canadian Pacific, some depreciation accounting and some not depreciation accounting, I put it to you that that is not a unsatisfactory state of affairs from the standpoint of making effective comparisons of the operating results of these two railways when we get into a revenue case? I put it to you; what have you got to say about that?

A. There are only two differences that you speak of ; there are not three.

Q. I asked you, Mr. Liddy, my question was, was that not an unsatisfactory situation? That is the question I put to you; what is your view about that?

MR SINCLAIR: Apparently you misstated the fact.

THE CHAIRMAN: Your question is based on there being three methods.

MR FRAWLEY: Q. In the case of the Canadian Pacific, you mean?

A. Both roads, you said.

Q. In the case of the Canadian Pacific?

A. Renewal accounting for ties and rails is not an item of difference between---

Q. Mr. Liddy, please! In the case of the Canadian National -- we will take them separately -- you have straight line depreciation for equipment, you have retirement accounting for roadway, and you have renewal accounting for ties and rails and that sort of thing?

A. You said for the Canadian Pacific?

Q. No; this is the case of the Canadian National. Straight line depreciation for equipment?

A. Yes.

Q. Right?

A. That is right; you don't need to repeat it.

Q. Well, that is right, then. So there are three kinds of accounting at least for the depreciation of the Canadian National road and equipment assets?

A. Yes, and no depreciation on some other assets.

Q. All right. Now, that is the Canadian National?

A. Yes.

Q. In the case of the Canadian Pacific I say you have user for your depreciable assets?

A. Yes.

Q. You have straight line for Inland Steamships, and you have renewal accounting for non-depreciable road assets; that is correct?

A. Yes, sir.

Q. Now, Mr. Liddy, call them one, two, three or four, I put it to you that that is not a satisfactory situation in which to leave the accounting, the depreciation accounting methods, of these railways when you want to make effective comparison for revenue case purposes?

A. You mean the Canadian Pacific comparing with itself or something?

Q. Comparing the Canadian Pacific with the Canadian National?

A. Well, Mr. Frawley, both the Canadian National and the Canadian Pacific agree that we should get together. We are in perfect agreement. There is no resistance on the part, I am sure, of either the Canadian National or the Canadian Pacific. We want to get together.

Q. Well, how do you mean? I don't follow this get-together business. Who are you going to get together with?

MR SINCLAIR: On the same basis, he means. It should be obvious to you, Mr. Frawley.

MR FRAWLEY: Q. With whom are you going to get together to discuss this matter?

A. We want to get together with the Board. I made that quite clear.

Q. Perhaps we are not very far apart?

A. I did not think so.

Q. Get together with the Board and the Canadian National, discuss the whole matter with the Board, and allow the Board then to prescribe one uniform method?

A. I say I do not think that is absolutely necessary, for this reason, that I think first of all that a clear-cut distinction should be made as to what assets are going to be depreciated, because there can be no comparison between retirement accounting and depreciation accounting -- no comparison. Now, I would like to see similar assets prescribed for all railways that shall be depreciated. The Canadian National may not agree with me, and they may have very good reasons.

Q. But in the end one view or other will prevail, I take it?

A. I do not know what the Board are going to do.

Q. But following up just that point, after there has been the discussion and the difference of opinion, one view will ultimately prevail, I take it?

A. Well, I hope so.

Q. Then that could be put into a rule?

A. I think so.

Q. As simple as that?

A. Yes.

Q. Then all right, now go on with something else.

A. As to the kind of asset.

Q. That is one thing, yes.

A. That would be quite a step.

Q. Well, all right.

THE CHAIRMAN: Q. As to the kind of asset?

A. That is right.

THE CHAIRMAN: Well, it still has reservations.

MR FRAWLEY: Oh, yes.

THE CHAIRMAN: What assets come under this classification of retirement? Give me an idea of what is meant by that.

MR O"DONNELL: I think, my lord, if you would look at page 31 of the 21% judgment it would give you a very accurate picture of the different types of accounting referred to. It is set out there very conveniently, stating what the C.P.R. practice is and what the Canadian National practice is.

THE CHAIRMAN: Is the word "retirement" there?

MR O'DONNELL: Yes; the whole thing is quite clear.

THE CHAIRMAN: What does it say, Mr. Frawley?

MR FRAWLEY: This is a sort of table between the Canadian Pacific Railway and the Canadian National Railways, and under "Canadian National Railways Rolling Stock",

"Prior to Jan. 1/40..... 'Retirement' accounting.

Jan. 1/40 to date..... 'Depreciation accounting."

THE CHAIRMAN: What is retirement accounting? How does that operate on the rolling stock? What is the

effect of it?

MR FRAWLEY: Well, retirement accounting is what Mr. Liddy tells us is "write-in - write out". Perhaps Mr. Liddy could elaborate on what retirement accounting is on rolling stock. That has passed now; it is not of any current importance, because now the Canadian National rolling stock is on straight line depreciation accounting.

THE CHAIRMAN: Yes, but you did use the word "retirement" a while ago as being one of the things that the Canadian---

MR FRAWLEY: That is further in the table, sir. Next in the table is:

"ROAD PROPERTY (DEPRECIABLE)

'Retirement' accounting has prevailed throughout, except for 'rails', 'ties' and 'other track material' for which 'Renewal' accounting is followed."

Now, one final clause:

"ROAD PROPERTY (NON-DEPRECIABLE)"---

THE CHAIRMAN: Pardon me. In the amount of depreciable assets---

MR FRAWLEY: Road property.

THE CHAIRMAN: Retirement has been followed, it says.

MR FRAWLEY: And is still followed in the case of the Canadian National.

THE CHAIRMAN: Then does that just mean time accounting or user accounting back again under the general term of retirement?

MR FRAWLEY: Q. Mr. Liddy, would you just briefly---

THE CHAIRMAN: What does retirement mean?

MR FRAWLEY: Q. ---state to the Board what retirement accounting in that connection means?

A. Take the item of grading, sir, which is a non-

depreciable item according to I.C.C. classification. The time comes when you want to retire say a branch line.

THE CHAIRMAN: Q. Retire a branch line?

A. Retire a branch line.

Q. Do you mean give it up?

A. Yes, sir.

Q. Abandon it?

A. Abandon it. You are going to retire then the grading, and you look at your account, your investment account, and you find the cost, $20,000, the grading on that line. You write that out of your investment.

Q. Oh, it is gone entirely, yes, of course; you cannot use that grading anywhere else.

A. It is just earth.

Q. You might use the rails somewhere else, I suppose, but you cannot use the grading, that is sure?

A. That is right.

THE CHAIRMAN: If that is what retirement means, I understand it, but I thought perhaps it was meant to cover other things there.

MR FRAWLEY: Q. Your illustration of grading, is that sufficiently illustrative of the retirement accounting on road property?

A. I think---

Q. If it is, I will pass on.

A. ---that is informative.

THE CHAIRMAN: It means altogether out.

THE WITNESS: That is what retirement means; it means writing it out, at the particular year that you do abandon it or retire it.

MR FRAWLEY: Q. In other words, in the railway assets there are a large group that are not subject to depreciation accounting of any kind?

MR SINCLAIR: What company are you referring to?

MR FRAWLEY: Both companies.

MR SINCLAIR: Well, let us get it straight, because apparently Mr. Liddy is having a little difficulty following whether Mr. Frawley is speaking of the Canadian National or the Canadian Pacific. I think it would be helpful.

MR FRAWLEY: We must make that clear.

MR SINCLAIR: And I know my friend wants to be helpful.

MR FRAWLEY: Oh, sure.

Q. Now, in the case of the Canadian National there are a large body of assets which are not subject to depreciation accounting of any kind, user or straight line?

A. They have not applied depreciation accounting at all.

Q. At all, to their road property?

A. That is right.

Q. Depreciable and non-depreciable?

A. Yes, including shop and power plant machinery.

Q. Excepting rails, ties and other track material for which renewal accounting is followed; that is the situation in the Canadian National?

A. Very clear.

Q. And with respect to their rolling stock---

THE CHAIRMAN: I am very sorry, but you said non-depreciable there.

MR FRAWLEY: Both depreciable and non-depreciable.

THE CHAIRMAN: Would you rank rails and ties under the heading of non-depreciable?

MR FRAWLEY: No; under the heading of depreciable, sir.

MR SINCLAIR: Oh, no.

THE CHAIRMAN: How do you divide your subject?

MR FRAWLEY: It is an exception, sir.

THE CHAIRMAN: How do you divide your subject?

MR FRAWLEY: As the Board has done, sir. In the table on page 31 this is what appears for the Canadian National: "Road Property (Depreciable)" is the subject heading. "'Retirement' accounting has prevailed throughout except"---

THE CHAIRMAN: According to Mr. Liddy, that could mean things you throw away.

MR FRAWLEY: Yes, but immediately follows the exception -- "except for 'rails', 'ties' and 'other track material' for which 'Renewal' accounting is followed." That is the full statement.

THE CHAIRMAN: Well, renewal accounting is not depreciatory accounting at all.

MR FRAWLEY: That is right, sir. It is just a case of writing in the new asset and charging it to expense.

THE CHAIRMAN: According to this. But you see the curious way they blend the two things together. Read it again.

MR FRAWLEY: "'Retirement' accounting has prevailed throughout" -- discussing road property -- "except for 'rails', 'ties' amd 'other track material' for which 'Renewal' accounting is followed."

THE CHAIRMAN: Then the word "retirement" there cannot have the same meaning as Mr. Liddy uses it in, because ties and rails are not an exception to a retirement method. A retirement method throws it away; you cannot use it any more.

MR FRAWLEY: Well, for instance, if you were retiring a grade, to use your illustration, on which there were rails and ties, and then the right of way, the

graded right of way, you are abandoning your line, and you have some grade and some ties and rails.

Q. How would it be done under the quotation I have read:

"'Retirement' accounting has prevailed throughout, except for 'rails', 'ties',and 'other track material' for which 'Renewal' accounting is followed."

THE CHAIRMAN: I do not think your question is apt there, because it seems to me those ties and rails, if they were usable, could be used in some other part of the line, could they not?

A. Yes, sir. You see, you cannot quite make a comparison there, because one is a situation where you are abandoning property. Now, that does not exist when you are continuing to operate it.

Q. No, but you are abandoning in the case you gave me a while ago, you are abandoning grading; it is being abandoned, of course?

A. Yes, sir.

Q. Because you are leaving that locality?

A. That is right.

Q. But is there anything to prevent you from taking the rails with you and using them in another locality?

A. No; we would do that, but we would still---

Q. Exactly. Then those rails would be like any other rails, subject to renewal, that is all?

A. That is right. We would write those out of our account, and then you assess a second-hand value to them, and we would use them somewhere else on a branch line.

Q. And subject to being renewed when necessary?

A. Correct, sir.

MR FRAWLEY: Q. But you would, you say, retire them in the first instance?

THE CHAIRMAN: You see, Mr. Frawley, there is no depreciation used there.

MR FRAWLEY: That is right, there is no depreciation with respect to rails and ties and other track material, no depreciation accounting involved.

Q. Now, Mr. Liddy, getting back to the question of the satisfactory or unsatisfactory state of affairs which follows upon the fact that for a large portion at least of railway assets in this country two distinct methods are followed today, you people following the user and the Canadian National following the straight line -- in other words, I am talking about equipment, am I not?

A. I hope so.

Q. Well, that is it; that is equipment, when I say you follow one method, the Canadian National follow another?

A. Yes, sir.

Q. That is limited to equipment?

A. Yes, sir.

Q. All right. And the discussion of equipment bulks large in the revenue cases as they come before the Board from time to time?

A. It is a substantial item, yes..

Q. Now, you are not saying to me that you want to continue -- I should put it in the form of a question: Are you saying, Mr. Liddy, that you are quite satisfied to continue the same situation that we have had up to now in connection with the depreciation of equipment, of rolling stock and so on?

(Page 17076 follows)

A. If that is the best way we can do it, I would accept that; I would prefer that rather than take a backward step to straight line.

Q. Now, Mr. Liddy, wouldn't it be far better that the user method should be prescribed for both, or that the straight line method should be prescribed for both? I put it to you, isn't that much better than to go on as we have been, with one company operating under straight line and the other operating under user?

A. No, I don't think I agree with you. Let me put it this way: if we can at all get together on user, let us get together; and if we can't, all right, one company may have to go on straight line and the other on user; but I draw a distinction -- let us at least have depreciation.

Q. That is fine. We will go this far: you think there should at least be depreciation accounting of one kind or another?

A. Yes, sir.

THE CHAIRMAN: Not necessarily uniform.

MR. FRAWLEY: Yes.

Q. That is one of the steps; you do think we should have depreciation accounting?

A. I agree we should, sir.

Q. The big question is should both companies be on straight line or both companies on user, or as we have it today? Those are the three alternatives.

A. In other words, should it be rigid or flexible?

Q. I am putting it to you, should they both be on straight line, both on user, or one on each as we have them today? Those, it seems to me, are the three alternatives facing the Commission.

THE CHAIRMAN: Facing the Commission? I thought you said you didn't want us to prescribe any.

MR. FRAWLEY: I do want you to prescribe uniform accounting.

THE CHAIRMAN: We all know that, but as between these methods of depreciation -- in a way you are rehearsing before us an argument which you will make later on before the Board.

MR. FRAWLEY: Not really. I want to convince this Commission that there should be a recommendation for uniform depreciation accounting, because I haven't got the witness to that point yet, sir; that is my point.

THE CHAIRMAN: You want us to recommend that there be just one system? You say uniform?

MR. FRAWLEY: Yes, one system; and the Board should decide which it is.

THE CHAIRMAN: But you don't want us to make that part of the law?

MR. FRAWLEY: That is quite right.

THE CHAIRMAN: You want us to say to the Board . . .

MR. FRAWLEY: To say to the Board, using informal language, you must prescribe one method.

THE CHAIRMAN: Just to say that?

MR. FRAWLEY: Yes.

THE CHAIRMAN: How can we tell the Board they must do something?

MR. FRAWLEY: Perhaps I am not giving it clearly. I say you should say to the Board,"You must establish uniform accounting." That is what I am asking the Board to do.

THE CHAIRMAN: That would have to be statutory.

MR. FRAWLEY: It might be statutory. I said informally, skipping the the mechanics of it, but ultimately someone would say to the Board, or Parliament on the

recommendation of this Commission would say to the Board --

THE CHAIRMAN: Parliament should go no further than that, than to prescribe a uniform accounting?

MR. FRAWLEY: That is right.

THE CHAIRMAN: Leaving the rest to the Board. Then it is before the Board that you would make the argument you are bringing out now in examining Mr. Liddy?

MR. FRAWLEY: That is right. Perhaps I haven't --

THE CHAIRMAN: Haven't you been over that ground sufficiently?

MR. FRAWLEY: Perhaps, my lord.

THE CHAIRMAN: Having regard to your purpose?

MR. FRAWLEY: We seem to be near, but I think we are far apart. The Canadian Pacific says they would -- and I think Mr. Liddy just said they would -- prefer to keep the present system, rather than take, what Mr. Liddy called, a backward step to straight line depreciation.

MR. SINCLAIR: He didn't say that.

MR. FRAWLEY: He said backward step, and I assumed he meant back to --

MR. SINCLAIR: He said all the assets, that is the same assets, on depreciation accounting. He agreed with the submission of Alberta in that regard.

MR. FRAWLEY: All right.

MR. SINCLAIR: What he said was as to the method, that he thought there should be flexibility; and that if they were unable to agree on the method to be used, that they would allow the Canadian Pacific to use that method that best suited them.

THE CHAIRMAN: Perhaps Mr. Liddy would desire it. Here is a point: a statute prescribing uniform accounting would still leave open, would it not, the question of the method of depreciation to be followed?

MR. FRAWLEY: Yes it would.

THE CHAIRMAN: Exactly.

MR. FRAWLEY: But it would not leave open the question my friend just raised, namely, if the user is not prescribed as the one method, leave us with the user method.

THE CHAIRMAN: Yes, but you have anticipated what I am going to say. The statutory provision calling for uniformity would leave it to the Board to hear the arguments that you and Mr. Sinclair are now making to us.

MR. FRAWLEY: Yes.

THE CHAIRMAN: So far as you gentlemen are concerned, the arguments are lost on us. You say you want us simply to recommend statutory provisions prescribing accounting?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And go no further?

MR. FRAWLEY: That is right.

THE CHAIRMAN: We have power to go as far as we will. You understand that?

MR. FRAWLEY: Yes.

THE CHAIRMAN: This information may be useful to us in that very question, but in so far as you are concerned you do not want us to go any further than that?

MR. FRAWLEY: No. . .

THE CHAIRMAN: That is, to prescribe by law that the system of accounting must be uniform?

MR. FRAWLEY: Must be uniform.

THE CHAIRMAN: And no further?

MR. FRAWLEY: That is right, sir; and --

THE CHAIRMAN: And it would then be in the jurisdiction of the Board to determine?

MR. FRAWLEY: Yes, my lord. But I am meeting the suggestion of the Canadian Pacific which virtually

amounts to a departure from uniformity, because they say they want the user to be prescribed as uniform; in other words, if not, we want to be left with the user.

THE CHAIRMAN: We are not talking of uniformity of depreciation methods; we are discussing first of all uniformity of accounting. Now you say that uniformity of depreciation is an essential part of uniform accounting?

MR. FRAWLEY: Yes, I do.

THE CHAIRMAN: Then you do want us to prescribe --

MR. FRAWLEY: Not prescribe, but to say the Board must prescribe a uniform system of accounting.

THE CHAIRMAN: One or the other?

MR. FRAWLEY: Yes, but it must be uniform. My position is that it must be uniform. I am saying here and now that I will go just as readily with the Canadian Pacific as with the Canadian National. My witness, Mr. Morrison, made that clear.

THE CHAIRMAN: You would have us, in whatever amendment we might be inclined to suggest, go so far as to state that within uniform accounting there must be uniform depreciation methods.

MR. FRAWLEY: Yes, that is right, sir. They cannot continue --

THE CHAIRMAN: And that would be statutory?

MR. FRAWLEY: If it must be statutory; whatever is necessary to bring it about, even if it must be statutory. I hadn't thought that the statute would have to write in that kind of particular, but if it need be I must go that far, because I have taken the position that, be it straight line or be it user, there must be one. That is obvious. We will leave the general mechanics of that.

THE CHAIRMAN: You want to leave the Board then

with the option of choosing. . .

MR. FRAWLEY: One or the other.

THE CHAIRMAN: But only one.

MR. FRAWLEY: That is right, sir. Where I depart from my friend, Mr. Sinclair, is that it has to be prescribed by the Board; they must not prescribe for both; they must prescribe one or the other. The C.P.R. says they must leave us with our own.

THE CHAIRMAN: You would have the Board powerless to do what Mr. Sinclair suggests?

MR. FRAWLEY: Yes, they would be powerless.

THE CHAIRMAN: You have to go a step further in your recommendation for legislation.

MR. FRAWLEY: That is clearly what I have in mind.

Q. Let me go on with something else. Mr. Liddy, I want to discuss with you your adherence to, the slavish - adherence -- to borrow a word from your counsel Mr. Evans -- to the user method.

THE CHAIRMAN: What word did you borrow?

MR. FRAWLEY: Mr. Evans talked about the slavish desire. I say to Mr. Liddy he is rather a slavish adherent to the user method.

THE WITNESS: Nothing obnoxious?

MR. FRAWLEY: Q. No, nothing obnoxious.

A. I wouldn't think so.

Q. You love it.

A. Love you?

Q. No, you love the user method of depreciation?

A. I think it is excellent.

Q. We will use the soft and most pleasant word we can think of. The Board of Transport Commissioners has gone pretty far in declaring themselves in favour of straight line depreciation?

MR. EVANS: That is a matter of argument.

MR. FRAWLEY: It is not a profound argument.

MR. EVANS: Don't ask Mr. Liddy to interpret the Board's judgment.

MR. FRAWLEY: If Mr. Liddy tends to think the Board has gone for straight line --

MR. EVANS: He does not say that. The Board's judgment speaks for itself.

MR. FRAWLEY: Do you want me to give you the page references to what the Board said?

MR. EVANS: No; I don't need the page references.

MR. FRAWLEY: I don't know who is the witness, Mr. Liddy or Mr. Evans; I am between the two of them.

MR. EVANS: The witness is not to interpret what the Board did. The Board has given judgment, and what the Board said will be on record. It is not for the witness to interpret it.

THE CHAIRMAN: If Mr. Frawley can show me a mere statement of fact which by the recital of it we will see what is the question. . . what is it you want to cite?

MR. FRAWLEY: I want to cite the fact that the Board of Transport Commissioners, first in the 21 per cent case and then in the 20 per cent case, and no change in the judgment delivered two days ago, have rejected the user method and have adopted the straight line. It is as simple as that.

THE CHAIRMAN: Suppose they have?

MR. FRAWLEY: That is all.

MR. EVANS: It is simply from the Board's --

THE CHAIRMAN: Mr. Evans does not agree with your interpretation of the Board's judgment.

MR. EVANS: I say they did not go for the straight line in their first judgment; they did in the

second?

THE CHAIRMAN: They did in the second?

MR. EVANS: They did in the second.

MR. FRAWLEY: All right, now.

Q. The Board has, certainly at least starting with the 22nd of September, 1949, adopted and modified its judgment, and put into its judgment the straight line method of depreciation of equipment. That is right, Mr. Liddy, is it not? Mr. Evans admits it himself.

A. I would certainly like to expedite this case, Mr. Frawley --

THE CHAIRMAN: Pardon me, I want to make sure of your positions. Mr. Evans, you think the result of that judgment is that hereafter both railways will be compelled to produce straight line depreciation figures?

MR. FRAWLEY: That is just what I was going to discuss with the witness. I was going to put this question to him:

THE CHAIRMAN: It is a question of law. How far do you say the second of the three judgments Mr. Frawley refers to does go?

MR. EVANS: The second judgment unquestionably favours the straight line.

THE CHAIRMAN: Does it favour it in such a way as to prescribe it for the future?

MR. EVANS: I would say not.

THE CHAIRMAN: You say not. What do you say, Mr. Frawley? Do you say it does?

MR. FRAWLEY: I say it does.

THE CHAIRMAN: How is Mr. Liddy going to supplement that?

MR. FRAWLEY: Probably not, sir; that may shorten up the cross-examination.

Q. Now, Mr. Liddy, you produce as an exhibit here Exhibit 187, and I am wondering a little bit about that exhibit. You say that the Interstate Commerce Commission is now considering an accounting order which would give the railways some leeway in the matter of the depreciation on ties, rails and other track material; that if the proposed order went into effect that there might be depreciation on ties, rails and other track material based on either the straight line method or on some other basis, made to correspond with the unit of use rather than time?

A. I think you are reading almost --

Q. I am reading from the paragraph you called our attention to the other day.

A. That is what that paragraph says.

Q. Do you know what has transpired, Mr. Liddy, since the 27th of September, 1948, in connection with this proposed accounting order?

A. Well, it was sent out and there will be replies sent in, and the matter will then be discussed; I don't know.

Q. That is still in the future. Do you know what has transpired? Has anything transpired since the 27th of September that would advance any nearer toward a complete and effective order?

A. I think that would take a matter of two or three years.

Q. That would take two or three years. You have had it out since October 7, 1948?

A. Practically that date, yes.

Q. This photostating was done in your own organization, I take it?

A. That is right.

Q. This is a letter from your own files, or the

files of some office of the Canadian Pacific?

A. That is right.

Q. Because you people are members of the Association of American Railways?

A. The same as the Canadian National.

Q. That is right?

A. Yes.

Q. Since the 7th of October, 1948, or a day or so after that when your company received it, what have you done about it?

A. What have we done about it?

Q. Yes.

A. I don't know whether we have answered this or not. If you read the first letter there from Mr. Bunnell:

> "As suggested in my letter transmitting copy of Subject No. 423, you will probably wish to discuss this subject with your executive, legal and engineering departments."

(Page 17088 follows)

Q. Well, that is right. It takes quite a bit of time and you don't know what the progress has been in your own organization with regard to this letter?

A. No, You see, this affects United States railways and as far as the Canadian Pacific is directly concerned, we only have small mileages in the United States and we are not particularly concerned one way or another because there is only a couple of hundred miles of our line involved.

Q. I wondered how you might regard this. Have you had it yourself in your own office or in your own branch since early in October 1948?

A. We may have; I don't get this kind of stuff, this matter currently at all.

Q. But you are the depreciation expert. You are the only witness that has been put up by the Canadian Pacific since October 1946 in this?

A. I am a witness, but I am not the only expert.

Q. But you are the only witness which the Canadian Pacific has put up from its own organization to tell the story of depreciation?

A. Yes.

Q. Well now, has this only quite recently come to your hands? That is all I was wondering about Mr. Liddy - personally?

A. No, I don't know as we would actually - we might not have replied to this.

Q. That was not my question. Did the letter which is from Mr. Bunnell as a member of the General Committee of the A.A.R. to the Canadian Pacific, has this only come to your hand, Mr. Liddy's personally, recently?

A. You mean this last week or two weeks?

Q. Last week or a month or two?

A. I think I knew about it before the turn of the year.

Q. Sometime in early 1950?

A. Yes.

Q. Because frankly what I was wondering about was, why you did not bring it to the attention of the Board of Transport Commissioners during the20 Per cent Case, because you are bringing it forward now as some support for a trend, I think you said, in favour of the user method?

A. We were trying to expedite the 20 Per cent Case.

Q. You did not want to get into a long argument about this Exhibit?

A. No, sir.

Q. And seriously, that is the only reason you did not bring it forward?

A. We made a pretty effective argument in the 30 Per cent Case.

Q. That does not answer my question. If you want me to put it stronger, I suggest this was lying in somebody's basket in Montreal or it would have been put in the 20 Per cent Case?

A. You mean this last Case?

Q. The 20 Per cent Case which ran from sometime early in 1949 right down until the end of May or April or something in 1949.

THE CHAIRMAN: You mean from 1948?

MR. FRAWLEY: The 20 Per cent Case began in the early part, in February I think, and ran through to the first part of April 1949, that is about roughly the length of time it lasted.

A. We attempted in the 20 Per cent Case, if I am stating the matter correctly, to expedite the matter and to follow the formula, and that is why we just let the matter ride, Mr. Frawley.

Q. But, Mr. Liddy, the question of straight line versus user was brought up all through the 20 Per cent Case?

A. I know it was brought up, but until the Interstate Commerce Commission had something specific about this - my only point in putting that statement forward is that it shows the interest of the Interstate Commerce Commission.

Q. Well, in any event, if you knew about it - -

THE CHAIRMAN: This statement you have been referring to, is it an Exhibit?

MR. FRAWLEY: Exhibit 187, sir. Now, Mr. Liddy I just want to ask you a couple of questions on the segregation of assets. You know there has been quite a difference of opinion between the provinces and the railway in connection with what should be allocated to rail and what should be allocated to non-rail in the Company's revenue?

A. Yes, quite a difference of opinion on all subjects.

Q. But certainly quite a lot in connection with the segregation of assets, and it is one of the matters which has been referred to this Commission by Order-in-Council P.C. 6033?

A. Yes, sir.

THE CHAIRMAN: Now, tell me what specific language you have in mind?

MR. FRAWLEY: The Board is directed:-

"To review the present-day accounting methods and statistical procedure of railways in Canada, and report upon the advisability of adopting (or otherwise), measures conducive to uniformity in such matters, and upon other related problems such as depreciation accounting, the segregation of assets, revenues and other incomes, etc., as between railway and non-railway items;"

I put it to you very briefly and I do not want to spend too much time on it, but don't you think that in view of all the differences of opinion there has been that it would be good to have an umpire to divide these contentious questions and put into rail those matters which in the opinion of such umpire should go into rail?

A. I would go further than that and say we ought to have a Bible, that is, the classification, and then you have it so the umpire won't blow the whistle at the wrong time.

Q. You are quite willing then - that is all I wanted to ask you - you are quite willing and you have a perfectly open mind on whether or not the Board of Transport Commissioners should put all the items from 1 to 9 into rail or non-rail in accordance with the evidence that is placed before them? I am speaking of Exhibit 189.

A. You mean I can blow one way or the other?

Q. No, you can blow one way or the other and then the division will be made in accordance with the views of the regulatory body after they have heard everybody concerned. Does that seem to you a perfectly fair way to put it?

A. We will present our case to the Board. We feel that we, in common with the Canadian National and other railways might have differences of opinion. I do not know if that is so as a matter of fact.

Q. But at the moment, as it stands now, you are adhering to the position, that, for instance, the income you get from your investments in the Toronto Terminals Railway should go into non-rail?

A. Yes, I see a lot of difficulties in sound accounting to fall from that.

Q. But you are willing, after having placed your views before the Board, to have the Board say whether or not the income from the Toronto Terminals Railway investment should go into rail or non-rail?

A. It is not as simple as that; you have got to dissolve this company if you want to do that.

Q. Why would you want to dissolve the company?

A. I cannot put half of the Toronto Terminals Railway into the Canadian Pacific Account; I cannot put half of the general manager into our statistics; I cannot do those things, and it is not sound accounting and it is not done. Now, if that is the ruling of the Board that this Terminals Company should be dissolved, then - -

Q. If that were the ruling of the Board when they are discussing these features - -

A. Then, our accountants will simply follow the legal procedure in whatever manner they set it out.

Q. Mr. Liddy, I don't want to spend too much time about it, but just stop for a moment and consider the Toronto Terminals Railway. You have to have a terminal in the city of Toronto?

A. A joint terminal, yes.

Q. And if it was not jointly with some other railway company, you would have to have your own?

A. Yes.

Q. Just as you have one in the City of Calgary, we will say?

A. Yes.

Q. You need one as much as the other?

A. Yes, sir.

Q. You can't get through to Windsor, Ontario without your terminal in Toronto?

A. No, sir.

Q. And you can't get through to Vancouver without your temminal in Calgary?

A. No, sir.

Q. Now, is there any difference substantially and essentially between your terminal operations in Calgary and your operations in Toronto?

A. I am not talking about operations; I am talking about the accounting.

Q. Well, we know there would be a difference.

A. There is a difference in accounting.

Q. Is there any difference in physical operation?

A. Yes, there is a difference in the physical operation. I don't know whether you know Toronto or not?

Q. Not as well as I know Calgary.

A. Well, you go into the Toronto Union Station, and you neither find a Canadian National nor a Canadian Pacific employee.

Q. That is only your own doing?

A. You just asked me, sir. Let me finish this, because

I don't know whether you understand it or not.

Q. Maybe not too well. I hope I will after you finish.

MR. EVANS: Let him answer please.

THE WITNESS: And this Company has its own employees, buys its own materials, has its own investment account, has its own accounting department, and purchases thos facilities and provides those facilities for the joint use of the Canadian Pacific and the Canadian National and probably the T.H. & B. or some other of those roads and pro rates its expenses of operating those terminals between those railways on the basis of how many trains or how many cars they happen to run into those terminals. Now, I submit, that that accounting cannot be the simple accounting that pertains to the station at Calgary.

Q. But whose creation was it, this Toronto Terminals Railway?

A. It is a separate corporation.

MR. EVANS: Why don't you leave all this to the Board, Mr. Frawley?

COMMISSIONER ANGUS: Mr. Liddy, the figure given for income for the Toronto Terminals Railway, does that mean a dividend that that company paid to the Canadian Pacific or does it mean the Canadian Pacific's share of the approved net profits?

A. No, there is no dividend, Dr. Angus. The income that is taken into the Canadian Pacific's Other Income Account, represents interest on bonds, there is no dividend paid by the Toronto Terminals at all. The Toronto Terminals has some income - -

THE CHAIRMAN: These are bonds of this Company

which the Canadian Pacific holds?

A. Yes, and the Canadian National. The Canadian National holds half the bonds and we have half.

Q. An equal share each?

A. That is right. Now this company has no other investment. The property of the Toronto Terminals Railway is not in our railway investment.

COMMISSIONER ANGUS: Has it any income other than is necessary for bond intersst?

A. No, it has some small income from rent of space to Drug Stores and News Stands, income of that kind, - advertising, and that goes towards meeting the expenses of that terminal, but the Canadian Pacific run their trains right through that terminal and the Canadian National run their trains right through - -

THE CHAIRMAN: And you pay the Termina Company for the use you get?

A. Yes, and that is all that is charged in the railway account. The railway cannot get all the revenue from hauling trains into that terminal, and what the railway pays is a charge for operating that terminal. There is nothing like that in our accounting, and there is no need for it to be put on that system, and it is consistent with what railways in the United States are doing.

Q. Then, this figure of $46 thousand, that is interest on bonds?

A. Yes, that is interest on bonds.

MR. FRAWLEY: And as I understood you when you first discussed this the other day, Mr. Liddy, in direct examination, you put it this way, that that is Other Income, in your view, entirely Other Income. It is simply the

interest on an investment you have made. And just as if you had made an investment, I think, in Dominion of Canada bonds?

A. It could be looked upon that way.

Q. Would you go one further step? This is just the same as if you had made an investment in the shares of the Westinghouse Electric?

A. So far as our capital structure - -

THE CHAIRMAN: Supposing the Canadian Pacific owned the bonds of another railway company, then the other company would be in the railway business and paying interest on those bonds to the Canadian Pacific? But do you think you could call the operations of the other railway a part of the Canadian Pacific.

MR. FRAWLEY: No, I think there is a distinction. If such a case were put up, we should have to discuss it.

THE CHAIRMAN: It is farther away, I know.

MR. FRAWLEY: I do not want to argue it out now, but it is an essential part of that railway operation, and solely because they operate jointly with the Canadian Pacific they must incorporate a separate company. That is perfectly obvious, but it does not cease the day after incorporation as it was the day before, from being an essential part of the Canadian Pacific operation, and just the same as the Calgary terminal is an essential part of their main line fo Alberta operation.

Now, Mr. Evans says "Let us discuss it with the Board when we come to argue with the Board as to where this account should be". I think it is of interest to this Commission to see what the Canadian Pacific has done when they have put these things into Other Income, particularly when one

of the matters which you are charged to report upon, sir, is this segregation of assets, and I dare say you have to look at what segregation the Canadian Pacific itself has made.

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(Page 17098 follows)

THE CHAIRMAN: The assets we find here are bonds owned by this company, bonds of the---

MR FRAWLEY: That is the form of it; that is not the substance of it, sir, that is the form of it, and that is my point. It is form as against substance, sir.

MR EVANS: All I would like to remark on that, sir, is that section 2(d) of the Order in Council makes it clear that you have got to relate all these problems to the question of uniformity. I think that is clear in 2(d).

MR FRAWLEY: Well, of course, there may be an argument as to what that Order in Council means, sir, as to what the first "upon" qualifies as against the second "upon". I do not know that we need to get into a review of

> "the present-day accounting methods and statistical procedure of railways in Canada, and report upon the advisability of adopting, (or otherwise), measures conducive to uniformity in such matters," --

and then we might read again:

> "and report upon other related problems such as depreciation accounting, the segregation of assets, revenues and other incomes, etc., as between railway and non-railway items".

Now, my friend has a way of reading it which is perhaps right, perhaps wrong.

THE CHAIRMAN: Well, it is given here as a related problem, not necessarily the same problem.

MR FRAWLEY: No, but if you repeat the verb "report", then you have to separate directives.

THE CHAIRMAN: You see, I am leaning in your direction now.

MR FRAWLEY: Well, I don't want to press you too far, my lord; you might disagree with me.

THE WITNESS: If the Commission wish to read what

the classification says about facilities, they will find that in accounts 513 and 514, which are on pages 178 and 179.

THE CHAIRMAN: Q. Dividend income, you mean?

A. Dividend income and income from funded securities. And if you will refer to page 191 you will see from the form of the income account that that is not in railway operating revenues, such income.

Q. You have there dividend income and income from funded securities?

A. Yes, whether it is stock or whether it is bonds, sir.

Q. They are classified there as Other Income; that is the point you are making?

A. That is the point I am making, according to this classification. It is all a matter of classification, sir.

MR FRAWLEY: Q. Of course, that does not make it wholly right or wholly wrong, whether you find it in or out of that black book, I suppose, Mr. Liddy?

A. No. The only thing that would make it right would be that it has stood the test of time, and is what they do in the United States, where many companies have argued this thing for a long while before a very important body such as the Interstate Commerce Commission.

Q. What you say, then, is, wherever you come into a city the size of Toronto and you find for practical railroading purposes you want to get together with the other railway, then accounting-wise it is treated one way, as you have treated the Toronto Terminals, and then when you are in another area where you do not find it necessary to join with the other railway, where your operation, your terminal operation, might be just as big and just as important, but because you are not faced with the

expediency of joining with the other railway, you treat it accounting-wise in a totally different way? That is what it comes to?

A. Well, I do not think it makes any difference, Mr. Frawley. I will say Yes or No, whatever you want me to say, to that question.

THE CHAIRMAN: Mr. Frawley, I think the time has come to find yout from you, how far do you suggest we ought to go in this matter of segregation? That is what it is, the segregation of assets. That is what you are dealing with now.

MR FRAWLEY: Yes, sir.

THE CHAIRMAN: What is your proposal to us, then?

MR FRAWLEY: My proposal, sir, is that this Commission should recommend that it be a power of the regulatory body---

THE CHAIRMAN: And there would be no statute?

MR FRAWLEY: I was going to say, if it be not in the statute now, then of course there must be statutory provision made, but that the Board must have power to itself rule what shall be regarded as rail income, and then other income just is the remainder, that is all, but what shall be taken in as rail income for the purpose of arriving at the financial need of the railways. It is the problem which the Board itself felt---

THE CHAIRMAN: You would not go any further than that, in so far as the law is concerned?

MR FRAWLEY: That is right.

THE CHAIRMAN: Then in that case, the law being in that open condition, you would again go before the Board as you are now before us, in a given case, and argue that the Toronto Terminals, for instance, should be dealt with in the way you have suggested?

MR FRAWLEY: That is exactly right, sir.

THE CHAIRMAN: But you are not asking us to do anything about it?

MR FRAWLEY: To have you say, sir, that the Toronto Terminals should be one way or the other?

THE CHAIRMAN: Yes, or that kind of point.

MR FRAWLEY: Yes, anything of that sort. No, frankly, I would not ask this Commission to come to a conclusion of that kind.

THE CHAIRMAN: Don't you think, then, that you have given us all the information you can, having regard to the little distance you wish us to travel?

MR FRAWLEY: Oh, I think it is very important, sir. We have never had that yet at all.

THE CHAIRMAN: I am not saying it is not important. We may see fit to travel much beyond the limits you set for us. That is another question.

MR FRAWLEY: I am finished, sir.

THE CHAIRMAN: So far as you are concerned, though---

MR FRAWLEY: That is right, sir; it may be a short distance, but I think it is a very important step, because it would clarify a situation that has given us plenty of trouble before the Board.

COMMISSIONER ANGUS; Mr. Liddy, may I ask you a question? Supposing that the rate of interest on these bonds were higher than it is, would the effect of that be to transfer income to that extent from rail income to non-rail income?

A. It would have that effect, Dr. Angus.

THE CHAIRMAN: Q. Why?

A. Well, supposing the railway said, "Now, we are going to charge 25 per cent interest in setting up this

company," that would have to then be charged out through the railway accounts, the cost of that, and the Canadian Pacific would take that into its Other Income and the Canadian National would take it into its Other Income, but the railways have not done anything of that kind. This terminal was built in 1914 at 5 per cent interest on entire bonds, that is, there was no stock at all, and that is to my mind quite a reasonable investment. The railways have no desire whatsoever to milk the Toronto Terminals.

COMMISSIONER ANGUS: Q. I am not suggesting that; but aren't the railways in a sense paying the income to themselves? I mean, as I understand it, they share the expenses of the terminal, including the interest, and then get back part of what they pay in the form of interest?

A. Well, sir, we do not put it into our investment, as you understand. Now, these bonds, you may be able to market them -- I don't know -- but if I had some money and was trying to buy some bonds I would not buy bonds that represent 100 per cent of the investment; I would not think of it. Now, this was just a convenient way to finance the securities of that small terminal company, because the Canadian Pacific had means to finance it and the Grand Trunk had means.

Q. That was Mr. Frawley's point, that it was a convenient way to finance half of your rail operations, and yet that convenient way of financing them had the effect of taking some money out of rail income and putting it into non-rail income?

A. If the Canadian National and the Canadian Pacific wanted to say, "This half of the station is yours and this half is mine," we would have to go out and find that money, exactly the same amount of money, and pay interest on it or pay a dividend on it, or whatever way we found it.

MR EVANS: I was wondering, as a legal matter, Dr. Angus, whether it would not have the same effect if we had guaranteed the bonds and then sold them. You see, you would be paying your interest out to the public then, and you would have had the credit of the two companies behind it, and you would have had no different result. You might have had to do that if you did not have the money.

COMMISSIONER ANGUS: Wouldn't that be the same sort of operation, really, as increasing your fixed charges?

MR EVANS: Not unless you had to pay under your guarantee. If the rentals, as they would be in that circumstance, were sufficient to pay the interest on the bonds, the public would always get the bond interest, and there would be no payment under the guarantee, but the credit of the two companies would be behind it, with no burden on anybody. I think that is probably the test. I would agree absolutely that if in a given case we could be shown to have made an exorbitant interest rate there---

THE CHAIRMAN: Tell me, what about this company? This Toronto Terminals Company, is it a company incorporated by Dominion statute?

MR EVANS: I assume it is, yes.

THE CHAIRMAN: Well, since so much has been said about it, I think we ought to be informed about it.

MR EVANS: I think it is Dominion statute. This is "Moody's Steam Railroads", and it has a story about it:

"History: Incorporated under Canadian laws July 13, 1906."

THE CHAIRMAN: Oh, as long ago as that?

MR EVANS: Yes.

"Provide union passenger terminals in Toronto for Canadian National Railways, Canadian Pacific Railway",

and so on.

THE CHAIRMAN: I would like to see the statute.

MR EVANS: We will be glad to look it up, sir.

THE CHAIRMAN: Yes, I wish you would.

MR FRAWLEY: Q. Now, Mr. Liddy, I have only one more matter to discuss with you, and I hope it can be done very briefly. It is a matter that you and I have discussed before. Would you please look at page 32 of your 1948 Annual Report? That is the page which lists your fixed charges, and the first class of fixed charges is the rent for leased roads?

A. Yes, Mr. Frawley.

Q. Now, the total rent that you paid for leased roads in 1948 was $2½ million, roughly?

A. Yes, sir.

Q. And you will observe that the rent that you paid for the lease of the Ontario & Quebec Railway was about 40 per cent of the total that you paid?

A. Yes. It is a large railway. We paid a million dollars, $1,038,000, rental.

Q. Out of $2½ million you paid a little over a million for the rent of the Ontario & Quebec. Now, that rent is paid pursuant to the terms of a lease?

A. Yes.

Q. And I would like to call your attention to what I find at page 1473 of Moody's Manual of Investments. First of all, you would agree with me in the general proposition that as far as the freight shipper is concerned the fixed charges should be as low as possible?

A. That has been the aim of the railways of Canada.

Q. In other words, you have said more than once that your fixed charges are very respectably low?

A. Taking them in total, including the Ontario &

Quebec, they are low.

Q. But even if they were the lowest imaginable---

A. Zero?

Q. No, not quite that low.

MR SINCLAIR: That is the lowest imaginable.

MR FRAWLEY: Q. Even if they were much lower than they are, just even a half or so, there might still be one of them that would be too high; that follows, doesn't it? It could be too high?

THE CHAIRMAN: Too high having regard to what? How do you measure the extent to which it is too high?

MR FRAWLEY: Having regard to the manner in which the rental is calculated, sir, because that is precisely my point.

Q. Now, Mr. Liddy, you have not answered that question, and I take it that you are just going to let it sit, are you, as a rhetorical question?

MR EVANS: It is really a rhetorical question, because all this was gone into in one of the rates cases, and the proposition that Mr. Frawley is going to ask your Commission to consider I assume is the same as he did in that case.

THE CHAIRMAN: What case?

MR EVANS: In one of the rates cases. He was suggesting to the Board that they ought to find that the Canadian Pacific is paying too high a rental on the Ontario & Quebec lease, and there is a full statement by me as to the circumstances under which that rental was paid in the evidence in that case. I do not know what Mr. Frawley is asking this Commission to do about it, but the lease is there. We do not own a majority of the stock of the company; it is held by outside interests, and we pay the rental under the lease according to the bargain, so I do not

know what Mr. Frawley has in mind. He argued to the Board that we should not be paying so much rent, we should be negotiating with somebody else who has already got a given income to have that income reduced gratuitously, to save the Canadian Pacific. I can give you the page reference to the 21% Case where I gave full information on this subject, at pages 3490-3492.

THE CHAIRMAN: What is your point, Mr. Frawley?

MR FRAWLEY: My point is, as my friend says, the same as I made to the Board, and I felt that it was germane and proper for this Commission to look into it, by virtue of the fact that among the matters that you are expected to look into is paragraph 2, subsection (b):

> "to review the Railway Act with respect to such matters as guidance to the Board in general freight rate revisions . . ."

I take it that if I could---

(Page 17109 follows)

THE CHAIRMAN: And recommend amendments?

MR. FRAWLEY: Recommend amendments.

THE CHAIRMAN: Were there some amendments you wanted us to recommend? What are they?

MR. FRAWLEY: No, there is no amendment to be recommended in connection with this. I want to call to your attention what I call an improvident bargain. I say that the Canadian Pacific Railway have, by statute, of course -- by lease which has been confirmed by statute-- is called upon to pay --

THE CHAIRMAN: You mean that Parliament confirmed the terms of the lease?

MR. FRAWLEY: In 1884 they did.

THE CHAIRMAN: How do you want us to find today that it was improvident?

MR. FRAWLEY: I want you to find, sir, that the Canadian Pacific Railway --

THE CHAIRMAN: I have heard about improvident matters about a certain agreement made in 1887. You are now going back to 1884.

MR. FRAWLEY: 1884 now. Fortunately I have something in the nature of a precedent for it.

THE CHAIRMAN: What do you want us to do about it?

MR. FRAWLEY: There is no amendment required if your lordship is asking me to visualize an amendment to the Railway Act.

THE CHAIRMAN: What guidance do you wish us to give to the Board in the case of freight revisions?

MR. FRAWLEY: The guidance is that the fixed charges should conform from the point of view of their being improvident or otherwise. That is all. If I may give you the story in a word --

THE CHAIRMAN: Then why do you not want us to put that in the form of a statute?

MR. FRAWLEY: At the moment, frankly, I hadn't considered even the possibility of it being put in a statute, but perhaps it falls into that category with respect to the change adopted; whether, in other words, the Commission should make observations and recommendations that fixed charges are not simply to be rubber stamped, and then assessed against the freight shippers; that they should be the same from the standpoint of where too much money is being paid out under any one of these leases. . .

THE CHAIRMAN: I understand what you want provided but, as I have said so often, and I do not like to say it again, there is not much use asking us to advise the Board to do this or to do that, unless you can go so far as to make it a legal prescription.

MR. FRAWLEY: In can say this, sir, that the Railway Board has not seen fit, not only to agree with my submission, and that is perfectly obvious --

THE CHAIRMAN: Others -- not you -- have been reading to us long extracts from other Royal Commissions, the Duncan Commission, and then they say the Board has not complied with the recommendation. Why should it comply with ours?

MR. FRAWLEY: Without the force of a statute?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Well, that is very practical, if I may say so, but my lord --

THE CHAIRMAN: The amendments to the Railway Act say:

"To review the Railway Act with respect to such matters as guidance to the Board in general freight rate revisions, competitive rates, international

rates, etc., and recommend such amendments therein as may appear to them to be advisable."

MR. FRAWLEY: That is right. Suppose, in this instance, you came to the conclusion that it was not advisable to suggest an amendment to the Railway Act but that --

THE CHAIRMAN: It seems to me if you go back to a case as long ago as 1884, and you still find fault with it today, I would say it is high time something was done about it by legislation. Don't you think so?

MR. FRAWLEY: Very well, sir. If your lordship would hear me on the facts, I will be very brief about it; where it could be made to fall into a category which would properly be dealt with by statute is perhaps another matter.

I simply put this to the Board -- and I am sorry to be taking up my friend Mr. MacPherson's time for cross-examination; I am afraid there won't be much of the day left -- but I simply want to put it to your lordship in this way: I am reading from page 1473 of Moody's Manual of Investments:

"Company's properties were leased --"

That is the properties of the Ontario and Quebec railway company.

"-- to the Canadian Pacific Ry. under perpetual lease dated Jan. 1884, the lessee paying as rental 5% interest on debentures and 6% dividends on the stock of this company, the lessor agreeing to build certain extensions to the line and a bridge across the St. Lawrence River near Montreal."

Now that is the company with respect to which my friend says they do not own very much stock; and that fact appears on the same page. The Canadian Pacific owns 1119 shares of the outstanding 20,000 shares.

THE CHAIRMAN: What is the name of the company?

MR. FRAWLEY: The Ontario and Quebec Railway.

But as against that rather modest shareholder interest, we find that the officers of the company are, Mr. Crump, President, Mr. Unwin -- a Vice-President of Canadian Pacific -- is Vice President; Mr. Niderost is Secretary and J.C. Bonar, Assistant Secretary.

THE CHAIRMAN: What company is it you are talking about now?

MR. FRAWLEY: These are the officers of the Ontario and Quebec Railway Company.

THE CHAIRMAN: The present officers?

MR. FRAWLEY: The present officers of the Ontario and Quebec Railway Company.

Then we find the names of the directors are similar, with Mr. Crump, Mr. Unwin, Mr.MacNamara -- Vice-President of Canadian Pacific -- Mr. Evans, my friend, and Mr. Maunsell, the General Solicitor of Canadian Pacific.

We find that the directors and officers -- and if I am wrong my friend will correct me -- both the directors and officers of the company are Canadian Pacific officers; therefore, there is a very close connection, it seems to me, between the shareholders of the Ontario and Quebec Railway -- the remaining shadeholders -- and the company that holds 1119 shares out of the 20,000 shares outstanding.

My position is, if you like, a bold one. I say that the lease should be surrendered, and negotiated on more favourable terms, and I will call the attention of the Commission --

THE CHAIRMAN: More favourable to whom?

MR. FRAWLEY: More favourable to the Canadian Pacific Railway Company, and therefore more favourable to

the fixed charges which we have to pay for.

I want to call the attention of the Commissioners to the Atlantic and North-West Railway Company, and simply point out there that that company . . . and it is another Canadian Pacific Company -- I use the words generally, because there the directors are almost exactly the same people -- that the directors of the Atlantic and North-West Railway Company are Mr. Crump, Mr. Unwin, Mr.MacNamara, Mr. Evans, Mr. Leslie -- Comptroller of the Canadian Pacific -- Mr. Maunsell and Mr. D.S. Thomson who lives in Toronto.

Now that railway consists of 341 miles of track from Eganville to Payne -- I don't know where Payne is; and in the eastern townships, Montreal to Farnham, and Brookport to Megantic.

The comment I want to call the Commissioners' attention to is this:

> "Lease: On Dec. 6, 1886, the road, which was completed at that time (321.4 miles), was leased in perpetuity to the Canadian Pacific Ry. Co. for an annual rental of pounds 28,013, 14s for the first 20 years and pounds 66,500 thereafter. This lease was surrendered Jan. 1,1937 and replaced by a new lease for 999 years from Jan. 1 1937 at an annual rental equal to interest on first mortgage redeemable debenture stock."

The bonded debt is 4 per cent first mortgage redeemable debentures due 1957; and a quick calculation which was made for me, shows that that would be 52,000 pounds, or as shown on page 32 of this 1948 report, about $210,000, which is paid as the rent for that leased road.

I am doing no more than calling to the Commissioners' attention the fact that it should be,

in my opinion, as possible to renegotiate the rent which is paid to the Ontario and Quebec Railway Company as it is possible to renegotiate the rent which was paid the Atlantic and North-West Railway Company. I say that it is a matter which should not be, year after year, just rubber stamped by the Board of Transport Commissioners in arranging the financial needs.

THE CHAIRMAN: How would you have all that done?

MR. FRAWLEY: How would it be done?

THE CHAIRMAN: How would you compel its doing?

MR. FRAWLEY: How?

THE CHAIRMAN: How would you have it done?

MR. FRAWLEY: How would they be compelled to do it? The regulatory body might say, "Well, we will not pass that item as a fixed charge as it stands, and you must write it down or you must go and renegotiate the contract.

We heard something about the wage bill which the Canadian Pacific had to pay, and some comments were made during the judgment in the 20 per cent case that the mere fact of proof of the amount of wages paid did not, of necessity, require the immediate implementation of that payment in increased freight rates. By analogy I simply say that the Board should be able to say to this company, "Your fixed charges in that particular at least are too high."

THE CHAIRMAN: Are you saying the Board has no such power now?

MR. FRAWLEY: They may have the power, but if the state of affairs which I have called to the attention of this Commission struck the Commissioners as something worthy of special mention in their report, then I would

suggest that the regulatory body, when we next come before it, would be impressed by what this Commission said, and act accordingly.

That concludes my cross-examination, sir.

THE CHAIRMAN: Then we will rise now.

---The Commission adjourned at 4.10 p.m. to meet again on Monday, March 6, 1950, at 10.30 a.m.

ROYAL COMMISSION
ON
TRANSPORTATION

EVIDENCE HEARD ON

MAR 6 1950

VOLUME
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ROYAL COMMISSION ON TRANSPORTATION

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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO,
MONDAY,
MARCH 6, 1950.

THE HONOURABLE W.F.A. TURGEON, K.C., LL.D. - CHAIRMAN

HAROLD ADAMS INNIS - COMMISSIONER

HENRY FORBES ANGUS - COMMISSIONER

G.R. Hunter
Secretary

P. L. Belcourt
Asst. Secretary

COUNSEL APPEARING:

F.M. Covert, K.C. G.C. Desmarais, K.C.	Royal Commission on Transportation
H.E. O'Donnell, K.C. H.C. Friel, K.C.	Canadian National Railways
F.C.S. Evans, K.C. I.D. Sinclair	Canadian Pacific Railway
C.D. Shepard Wilson McLean, K.C.	Province of Manitoba
M.A. MacPherson	Province of Saskatchewan
J.J. Frawley, K.C.	Province of Alberta
F.D. Smith, K.C.	Province of Nova Scotia; Transportation Commission of the Maritime Board of Trade
J. Paul Barry	Province of New Brunswick
C.W. Brazier	Province of British Columbia

Ottawa, Ontario
Monday, March 6, 1950.

MORNING SESSION

---The Commission resumed at 10.30 a.m.

MR. SHEPARD: Mr. Chairman, before Mr. MacPherson proceeds, I wanted to have placed in the record this morning drafts of two suggested sections to be added to the Railway Act. The reporter has copies, and counsel and the Commission have copies. It reads as follows:-

"SUGGESTED BY MANITOBA AS AMENDMENT
(Draft) TO BE ADDED TO THE RAILWAY ACT WITH
REFERENCE TO UNIFORMITY OF ACCOUNTING
PROCEDURE AND DEPRECIATION:-

1. The Board shall as soon as practicable prescribe:-

(a) a uniform system of accounts applicable to all railway companies and a period of time within which the companies shall put into effect such uniform system of accounts, and the manner in which such accounts shall be kept; and

(b) for all railway companies the classes of property for which depreciation charges may properly be included under operating expenses, and the rate or rates of depreciation which shall be charged with respect to each of such classes of property.

2. Nothing in this section shall require any railway company for corporate purposes to keep its accounts on the prescribed uniform system or charge prescribed depreciation rates.

The Board or any duly authorized agent shall at all times have authority to inspect and copy all accounts, books, records, memoranda, or other documents of any railway company.

It is with reference to uniformity of accounting procedure and depreciation. We have not suggested where in the Railway Act it might be appropriate for these sections to be included.

The second section, which is the three lines at the bottom of the typed page that I have supplied reads:-

> "The Board or any duly authorized agent shall at all times have authority to inspect and copy all accounts, books, records, memoranda, or other documents of any railway company."

It has been pointed out to me by my friend Mr. Evans, that Section 70 of the present Act is probably sufficient to cover that provision that we are now suggesting, but I think it should go on the record at this time in any event, and we will consider the effect of Section 70.

The first section, which is divided into two sub-sections, deals with the mandatory duty imposed on the Board to prescribe a uniform system of accounts, and also to define the classes of property which will be subject to depreciation, requiring the Board to fix a rate or rates of depreciation.

The second sub-section of the suggested amendment makes it unnecessary for the railway companies, for corporate purposes, to follow the uniform system of accounts, or the depreciation rate. In other words, these are suggested for rate-making only, and I might add, sir, that in drafting these sections Mr. McLean and myself had reference to the I.C.C. Act, Section 20.

THE CHAIRMAN: The I.C.C. Act?

MR. SHEPARD: Yes, sir, sub-sections 3 and 4.

THE CHAIRMAN: Wait now, I.C.C. Act, Section 20.

MR. SHEPARD: Section 20, sub-section 3 and 4.

THE CHAIRMAN: I see, Mr. Shepard, that in this clause (b) of 1, you say:-

> "for all railway companies the classes of property for which depreciation charges may properly be included under operating expenses, and the rate or rates of depreciation..."

Do you intend that to go so far as to indicate that the Board shall adopt some method of depreciation?

MR. SHEPARD: Straight line or user for example, yes. We stressed that, and we considered that the wording we have used necessarily requires the Board to lay down the method, because in fixing the rate they would have to do so.

THE CHAIRMAN: But it leaves the Board free to select whatever method it thinks proper?

MR. SHEPARD: Yes, but in order to fix a rate they must determine what method is going to be used, so we have not included any specific reference to method, as that goes with the fixing of the rate.

THE CHAIRMAN: Then, you have in mind I suppose, taking (a) and (b) together, that a uniform system of accounting would necessitate the adoption of the same method of depreciation by both railways?

MR. SHEPARD: Yes, sir.

THE CHAIRMAN: On all the railways?

MR. SHEPARD: That is correct.

THE CHAIRMAN: This, you think, carries out that intention?

MR. SHEPARD: Yes.

THE CHAIRMAN: I notice that Section 70 is under

the heading of "Inquiries" with Section 69, and gives the Minister and the Board or the inspecting engineer or person appointed under this Act, powers of entry and inspection and of requiring the production of all material books, papers, plans, specifications, drawings, and documents. Do you think now, that that may already cover what you have in mind in the last paragraph of this draft?

MR. SHEPARD: It may well do, sir.

THE CHAIRMAN: I would suggest you look into that, and satisfy yourself on it.

MR. SHEPARD: Yes, we will have something to say about that later.

MR. O'DONNELL: There is also Section 384.

THE CHAIRMAN: 384, yes. That seems to be a very wide section. There is a lot of it, a page and a half, obtaining information, requiring attendance of witnesses and production. Yes, you might look at that too.

MR. SHEPARD: I am not too sure but whether our three lines do not cover what is in Section 384 and Section 70 fairly substantially, but we would have to study it.

MR. O'DONNELL: Or Sections 384 and 70 cover what is in your three lines.

MR. SHEPARD: It is a question of whether you want to take three pages for what can be said in three lines.

MR. EVANS: There may be other things. Before we leave this subject, may I ask whether Mr. Shepard presents these amendments on behalf generally of provincial counsel or only on behalf of Manitoba. I don't know whether he has an agreement with any other counsel or not.

MR. SHEPARD: Only on behalf of Manitoba at the moment, sir.

THE CHAIRMAN: All right, then, Mr. MacPherson.

MR. S. J. W. LIDDY - Recalled

CROSS-EXAMINATION BY MR. MacPHERSON:-

Q. Mr. Liddy, you produced an Exhibit which is filed as Exhibit 190 to which I would like to refer. Now, Exhibit 190, Mr. Liddy, is the comparable data showing digest of development of the Canadian Pacific Railway Company.

THE CHAIRMAN: What is that you say?

MR. MacPHERSON: Exhibit 190, my lord, is filed to show the comparable data showing digest of development from 1885 to 1948 of the Canadian Pacific Railway Company.

THE WITNESS: Yes, Mr. MacPherson.

MR. MacPHERSON: Q. Now, in the column to the left, caption "Net Railway Property Investment" the amount invested on the 31st of December 1885, was $160,864,000.

A. That is what this table shows, yes, sir.

Q. Now, looking over to the right, we find that it was not until 1894 that any preference stock was sold of the company?

A. 1893, I think, would be the probable date.

THE CHAIRMAN: When?

MR. MacPHERSON: 1893, my lord.

THE CHAIRMAN: It is under a column that indicates 1894, isn't it?

MR. MacPHERSON: Yes, that is what I thought. It does not matter for my purposes, 1893 or 1894. Insofar as the 4% consolidated debenture stock is concerned, the first of that was sold in 1889.

A. Yes, sir.

Q. So that all the stock of the Company that had been sold on that date was as shown under Capital Stock, Ordinary, $65 million?

A. Yes, sir.

Q. In the 20 Per cent Case, there was filed an exhibit which has been referred to before this Commission as 49 - 49. You are familiar with that of course?

A. In a general way only, Mr. MacPherson.

Q. Well, in any event you have not a 49 - 49 before you have you Mr. Liddy? I think we can look at this together. Statement A-6, sheet 1, shows the situation in respect of Ordinary Stock. In 1881 there were $3 million sold at par, which is correct?

A. That is what this statement shows, yes, sir.

Q. In 1882, there was $1,894,000 sold at par?

A. Yes.

Q. In 1883, there ware 20 million sold which produced only $5 million, that is, it sold at 25¢ on the dollar?

A. That apparently is correct.

Q. In 1883, there were 30 million sold with a discount of over $14 million or a yield of slightly over 50% of par?

A. That is right.

Q. And in 1884, there were 10 million sold and less than 50% of par was realized?

A. That is right.

Q. So that these 65 million of Ordinary Stock which was sold, realized as gross proceeds $29 million?

A. That looks to be right.

Q. Yes, actually then in 1885, the property investment was $160 million, but the investment of the shareholders was $29 million?

A. You said the property investment was what?

Q. The property investment account according to Exhibit 190 is $160 million, but the investment of the shareholders in actual cold cash was but $29 million.

A. Well, that is taking it a little far at that time. I would say that the par value of the stock was $65 million, and the cash proceeds was $29 million. Now, at that time you know that the Dominion Government had built a line for us and turned it over to us.

THE CHAIRMAN: Q. Had what?

A. Built a line, but to say that the property investment was $65 million at that time, I could not quite go that far.

MR. MacPHERSON: Q. Well, what my question to you was, was this, that at that time, the property investment according to your Exhibit 190 stood at $160 million, but the cold cash that had been put in by your shareholders was $29 million.

A. I think that is right.

THE CHAIRMAN: Q. Are you saying, Mr. Liddy, that the investment comprised more than that $29 million?

A. That is right.

Q. To get 700 miles of railway built?

A. That is right.

MR. MacPHERSON: I am coming to that, my lord. I am simply saying now that in 1885, the actual cash investment of shareholders was $29 million.

THE CHAIRMAN: Yes, the shareholders invested $29 million, and received in exchange $65 million worth of shares?

MR. MacPHERSON: Of shares, yes.

THE WITNESS: And there were also some bonds outstanding at the same time.

Q. We will come to those bonds in a minute.

A. I don't think you should let me hang up in the air as much as that.

Q. I have no intention of letting you hang up in the air.

THE CHAIRMAN: It will all come out.

MR. MacPHERSON: I am going to produce the 1885 Balance Sheet, and that will take us right out of the air. Actually, according to the last column, Mr. Liddy, at this same time the long term debt, bonds, notes and equipment obligations was $52 million?

A. Yes, sir.

Q. Now, so that we are not in the air at all, I want you to come to the 1885 Balance Sheet. I have made copies of this my lord.

THE CHAIRMAN: Is this an Exhibit?

MR. MacPHERSON: I will file it as an Exhibit, yes. It is simply a copy of the Balance Sheet.

...EXHIBIT 194:- filed by Mr. MacPherson : Copy of C.P.R. Condensed Balance Sheet, 31st December, 1885.

MR. MacPHERSON: Q. Now, Mr. Liddy, this is Exhibit 194, and it is a copy of the Condensed Balance Sheet of the Canadian Pacific Railway Company, 31st December 1885, and I would like to take the first page where you will see the Main Line cost of road was $107,251,000. That is correct?

A. Yes.

COMMISSIONER INNIS: This is in the report, is it?

MR. MacPHERSON: Taken from the annual report.

Q. The acquired lines, $8,436,341?

A. Yes, sir.

Q. Branch Lines, $4,967,000?

A. Yes.

Q. That is, $120 million?

A. Yes, sir.

Q. Then the next:-

"Note:- Lines built by the Government not included. Estimated cost, $35 million".

That would be the 700 odd miles that you have just referred to?

A. Yes.

Q. Then equipment, rolling stock, $7,958,000 odd?

A. Yes.

(Page 17126 follows)

Q.

Lake Steamers	478,252.99	
Shops and Machinery at and near Montreal	907,755 84	
		9,344,297.41
CONSTRUCTION PLANT TOOLS AND OUTFIT		130,812.38
REAL ESTATE at and near Montreal		414,581.64
ADVANCES and Expenditure on Leased Lines		
Total		3,313,906 83
ACCOUNTS RECEIVABLE		2,139,136.78
MATERIAL AND SUPPLIES ON HAND		1,586,707.09
DOMINION GOVT. GUARANTEE FUND. Amount on deposit to guarantee 3 per cent. per annum on Capital Stock until August, 17th, 1893		13,238,263.87
BALANCE DUE ON LANDS SOLD Deferred Payments		1,579,708.44
CASH ON DEPOSIT AT INTEREST		2,287,333.33
CASH IN HAND		3,010,479.40

A. Yes.

Q. Then under liabilities, and these refer to the bond issues to which you referred, there is:

First Mortgage Bonds .....Total.....	14,600,000.00
Mortgage Bonds on Acquired Lines, Canada Central	5,323,333.33
Land Grant Bonds, 1st. Mortgage.....	3,612,000.00
Dominion Government Loan at (round figures) 4 per cent per annum	19,150,000.00
Dominion Government Loan, secured by land	9,880,000.00
Unpaid Vouchers and Accounts	2,101,000.00

Cash Subsidy Paid by Government ..... Total	24,539,000.00
Land Grant	8,971,000.00
Town Sites	505,000.00
Bonuses Received from Municipalities..	232,000.00
Net Revenue from Road to Date, all fixed charges having been deducted	3,781,721.86

That is the balance sheet of the Company in 1885.

A. May I ask if this was taken directly from our Annual Report?

Q. Taken directly from your Annual Report.

A. Thank you.

Q. At that time the Company had completed the road to Vancouver?

A. Yes, I n think it was in operation some time in the fall of that year.

Q. And at that time it was purely a railway company?

A. I don't think we owned any steamships at that time; there was some telegraph and some express.

COMMISSIONER INNIS: You had lake steamers?

THE CHAIRMAN: Lake steamers are shown here.

MR. MACPHERSON: Q. Lake Steamers are shown at $478,000.00?

A. That is right.

Q. But so far as the company was concerned there was not the problem then that you have now of differentiating between rail and non-rail?

A. No; we were just starting out.

Q. As a railway company?

A. Oh, yes.

Q. It was not until 1949 that it was necessary to have a split balance sheet, in the form of Exhibit 49 - 49?

A. In rate cases?

Q. In rate cases.

A. That is right.

Q. Insofar as the company was concerned at that date, the corporation and the railway were the same thing?

A. No, I wouldn't say that.

Q. You wouldn't say that?

A. No.

THE CHAIRMAN: Are you talking of 1885?

MR. MACPHERSON: Yes, 1885.

THE WITNESS: Excuse me; I was still in 1949.

MR. MACPHERSON: Q. No, I mentioned 1885.

A. No; the whole problem in 1885 was to get the railway running.

Q. My point is this, Mr. Liddy, in Mr. Frawley's examination of you, for instance, the other day it came out time and time again the question of the apparent conflicting interest of the railway as against the company, now in 1950. Is that right?

A. Yes, there are a lot of questions along that line.

Q. Which did not exist in 1885?

A. Oh, no; they had other problems then.

COMMISSIONER INNIS: This question of land, Mr. MacPherson, are you thinking of that as part of the railway property and other income?

MR. MACPHERSON: No, I am coming to the

land later, Dr. Innis, and as to any conception we may put on land, and will probably spend some time on it. In any event, there is one item that I want to refer to.

Q. On the first page, Dominion Government Guarantee Fund, what was that, Mr. Liddy?

THE CHAIRMAN: Where is that?

MR. MACPHERSON: It is $13,238,000.00

MR. COVERT: The fourth item from the bottom.

MR. MACPHERSON: Q. What was that?

A. I am sorry, I am a little hazy on this, Mr. MacPherson, but we deposited with the government, I believe, some money guaranteeing interest on the capital stock in order that the public might have confidence in buying the stock; and I presume that some of this money was either the principal represented in the issue of stock, or perhaps it was some of the $25,000,000.00 that the government granted us.

Q. We will go into that in a minute and get it cleared up.

THE CHAIRMAN: The item is called Dominion Government Guarantee Fund?

MR. MACPHERSON: I propose to explain that, my lord.

THE CHAIRMAN: Whether the fund was provided by the government or by the company?

MR. MACPHERSON: I propose to put something in that will explain it; but before doing so I wish to come back to Exhibit 190 again.

Q. Will you look under the heading captioned "Dividend Declared"; the first declaration of dividend was in 1889, or 1890, of one per cent?

A. Yes, sir.

Q. Now, do you suggest that that was the first money received by the shareholders, by the way of returns for the money they had invested in the company, this $29,000,000.00 I speak of?

A. Unless there was something came out of this fund, I really don't know Mr. MacPherson.

Q. You see, Mr. Liddy, this Exhibit would suggest that the first return that the shareholders had for money they had paid in was in 1889, when they received one percent. Is that not correct?

A. Yes; ; that is what that Exhibit shows.

Q. I intend to show that that is not right, but before doing that I wish to file another Exhibit. This is exerpts from a letter from George Stephen, the President of the Canadian Pacific Railway to the Minister of Railways and Canals, dated the 15th of January, 1884, and is taken from the Report of Proceedings at thekspecial general meeting of shareholders of the Canadian Pacific Railway Company, 3rd and 6th of March, 1884, pages 5 to 13. I will file this as Exhibit No. 195.

EXHIBIT NO. 195: Excerpts from letter from George Stephen, President Canadian Pacific Railway to Minister of Railways and Canals dated 15th Jan. 1884.

Taken from Report of Proceedings at Special General Meeting of Shareholders Canadian Pacific Railway Company, 3rd and 6th of March 1884, pages 5 to 13.

MR. MACPHERSON: I will read this, my lord, and I think further examination of Mr. Liddy will explain this $13,000,000.00.

"In the beginning of November last, I had the honour of submitting to the Government a proposal for its co-operation, in securing a

minimum dividend at the rate of three per cent per annum upon the outstanding stock of the Company, which the Company believed would have the effect of increasing the market value of its shares to such an extent, as to make the unissued stock available to assist in providing funds for the completion of the Canadian Pacific Railway by the end of 1885. And this belief was shared by friends and financial agents of the Company, in the principal financial centres of Europe and the United States.

As you are aware, the Government, after a very full discussion of the matter, thought fit to accede to the request of the Company, and entered into an arrangement for securing the payment of a semi-annual dividend at the rate of three per cent per annum on the outstanding stock of the Company, amounting to $65,000,000; under which the sum of $8,710,240 in cash was placed in the hands of the Government, afterwards supplemented by a payment of interest to meet the dividend payments for five years. And a preferential charge was created upon securities to the amount of $8,250,000, to secure the payment by the Company to the Government, of the further sum of $3,853,912 on or before the 1st February next, and of $4,527,000 on the 17th August, 1888, these sums, together with the cash deposited, constituting an amount sufficient to provide the entire fund required for the secured dividend, during the whole period of ten years. The remainder of the authorized capital stock of the Company, amounting to

$35,000,000, was also deposited with the Government, subject to the right of the Company to issue any portion of it upon payment to the Government in advance of the amount required to pay the secured dividend upon the amount so issued.

I regret to say, however, that the arrangement so made has not attained its object in any degree. The stock markets of the world have been in a depressed state for some months."

That is the first excerpt, the second excerpt reads:

"Of the subsidies in money and land to which the Company is entitled under the contract:-

The Company has earned of the money subsidy $12,289,211

Leaving a balance of 12,710,789

Of the land subsidy it has earned ..... 13,755,705 acres

Of which it has sold..... 3,753,400 "

Leaving a balance earned of ..... 10,002,305 "

And unearned of ..... 11,244,295 "

Balance of land grant available ..... 21,246,600 "

.....

In addition to these assets, which come directly from the government and are under its control, the company has in the hands of the government the remainder of its stock, viz.: $35,000,000, subject to the payment of $8,575,000 to secure the dividend. And the company has also a further amount of $10,000,000 of stock, upon which it has obtained an advance of $5,000,000.

It has expended upon its main line of Railway, including the completion of 1,121 miles, the sum of $23,563,564

It has expended upon branch lines, including the completion of 269 miles, the sum of	3,827,092
It has expended in the improvement of railways received from the Government, the sum of	353,601
It has equipped its line and branches at a cost of	8,638,306
It has acquired extensions from Callander to Montreal and Brockville, at a cost of	3,203,050
It has on hand, materials, rails, etc..	4,025,604
It has paid to Government in advance of dividend, say.....	8,710,240
It has paid interest on Capital Stock...	2,128,000
Also interest on land grant bonds, and expenses in connection with land grant.....	372,880
It has made advances towards acquiring a line to the sea-board, and for other purposes within its charter...	3,482,251
It has acquired real estate for termini, etc., at a cost of.....	390,789
	58,695,377
And it has only received out of its entire cash and land subsidies, the aggregate sum of	21,318,222
Leaving a balance of	37,377,155

The above items of expenditure consist of net cash outlay, and the above balance represents

the amount which has been provided by the company itself. The figures are based upon the returns up to the 31st December last."

This is the last excerpt:

"I have therefore, the honour to submit an application by this Company, for an advance by the Government of a sum sufficient to enable the Company to proceed vigourously with its enterprise. In connection with this, I would also respectfully ask, that the stipulation for the deposit of $1,000,000 as security for construction, and of $5,000,000 in land grant bonds as security for the operation of the railway, be abandoned; and that the remaining cash subsidy be paid as the work proceeds, in the proportion which the work done bears to the work remaining to be done.

And I would further ask, that the delay for the payment by the company of $2,853,912, which, under the terms of the agreement with the Government of the 7th November last, is payable during this month, may be extended until the time approaches when it will be needed for the payment of the secured dividend, namely, the 7th of November, 1888, when the balance of that fund is payable.

If the Government can see its way to these concessions, which I venture to think are not important to it, the company would be enabled to proceed with its operations at such a rate of progress, as would enable it to open the railway at the end of next year, if it can obtain a temporary advance upon its property to the extent of $22,500,000."

Now, Mr. Liddy, you will see that in that statement, on the second page, there are certain items:

"It has paid to Government in advance of dividend, ...$8,710,240?"

A. That is right, sir.

Q. And:

"It has paid interest on Capital Stock ... $2,128,000?"

A. Yes, sir.

Q. That would be paid to the shareholders?

A. Well, they would get it eventually, anyway.

Q. Is there any doubt in your mind as to the fact that that is how it was paid?

A. I don't know whether it was paid through this government or not.

Q. We will try to get that straight then from your Annual Reports.

MR. MACPHERSON: My lord, I am not filing this document as an Exhibit, but I wish that it be read into the record. It is comparatively short.

THE CHAIRMAN: This is another sheet.

MR. MACPHERSON: Another sheet, my lord This is the Canadian Pacific Railway Dividends paid and included in cost of main line.

CANADIAN PACIFIC RAILWAY

DIVIDENDS PAID AND INCLUDED IN COST OF MAIN LINE

Guarantee Fund deposited with Dominion Government in 1884 to guarantee a dividend of 3 per cent on $65,000,000 of outstanding capital stock for ten years $16,238,288.87

Balance Sheet 1884

Original deposit	$ 8,710,240.00
Additional deposit	147,136.87
Advanced by Government loan	7,380,912.00
	$16,238,288.87

Disbursement of Fund

Year	Fund on Hand Beginning of Year	Interest Received at Approx. 4%
1884	$16,238,288.87	
1885	14,288,288.87	899,975.00
1886	13,238,263.87	515,235.86
1887	11,803,499.73	457,455.02
1888	10,310,954.75	397,062.57
1889	8,758,017.32	334,323.89
1890	7,142,341.21	269,050.58
1891	5,461,391.79	201,140.22
1892	3,712,532.01	130,486.31
1893	1,893,018.32	56,981.68
		$3,261,711.13

(Table continued from previous page)

Year	Dividends Paid at 3% on $65,000,000	Per Balance Sheet at End of Year
1884	$ 1,950,000.00	14,288,288.87
1885	1,950,000.00	13,238,263.87
1886	1,950,000.00	11,803,499.73
1887	1,950,000.00	10,310,954.75
1888	1,950,000.00	8,758,017.32
1889	1,950.000.00	7,142,341.21
1890	1,950,000.00	5,461,391.79
1891	1,950,000.00	3,712,532.01
1892	1,950,000.00	1,893,018.32
1893	1,950,000.00	
	$ 19,500,000.00	

(Page 17141 follows)

MR MACPHERSON: Now, the disbursement of the fund as taken by years, the source there is the annual reports of the company, and the fund on hand at the beginning of the year 1884 was $16,238,288.87, the dividends paid at 3 per cent on $65 million were $1,950,000 that year, and the balance per balance sheet at the end of the year was $14,288,288.87. Then each succeeding year -- and this is from the annual reports of the company -- there is on the left hand the fund at the beginning of the year, the second column represents an interest credit that the Government has allowed in respect of the money which was on deposit, the next column gives the dividends paid at 3 per cent on $65 million, and in 1893 the fund is exhausted and the last payment of $1,950,000 has been made.

Q. Now, I think that bears out what you had said, Mr. Liddy, and what that letter said, that in order to encourage sales, there was deposited of ordinary stock with the Federal Government a sum of money and an advance secured from the Federal Government to guarantee a dividend of 3 per cent on stock, ordinary stock, that had been issued for a period of ten years?

A. I think that is right, sir.

Q. So that when Exhibit 190 uses the term "dividends declared", while that may be technically right, actually so far as the shareholders were concerned they had received a dividend of 3 per cent from 1884?

A. Yes, I think that is correct, Mr. MacPherson.

COMMISSIONER INNIS: Did you say something about dividends being paid before 1884 in your earlier remark?

MR MACPHERSON: Not at this stage; but I am going to show that there was a payment made then too, Dr. Innis.

Q. As a matter of fact, on that point, if you

take Exhibit 49-49, that is the split balance sheet---

A. That was an exhibit put in by the Canadian Pacific Railway.

Q. That was not an exhibit put in by the Canadian Pacific Railway? A. Yes, sir.

Q. 49-49?

A. Yes, sir.

Q. Wasn't this put in by the Canadian Pacific Railway in the 20% Case?

A. That is what I say.

Q. Oh, yes.

THE CHAIRMAN: You are talking of the exhibit in the 20% Case?

MR MACPHERSON: Yes, my lord. This is an exhibit, my lord, which has been referred to a number of times before, and which I suppose will be referred to a number of times again, and is what is known as the split balance sheet.

THE CHAIRMAN: Did you say the split balance sheet?

MR MACPHERSON: Split balance sheet. This was a split balance sheet when the company submitted for the first time a balance sheet dividing as between rail and non-rail assets and liabilities.

THE CHAIRMAN: That was done in 1949?

MR MACPHERSON: 1949.

THE CHAIRMAN: For the first time?

MR MACPHERSON: For the first time in a rate case, for the first time that we know of.

THE CHAIRMAN: Up to that time what had been submitted? Up to that time in rate cases what had the company submitted?

MR MACPHERSON: Well, it was its annual report.

MR EVANS: There was no attempt to segregate the property and the earnings and the taxes complete. They presented their accounts in quite a different form. There was at that stage not the same question of what---

THE CHAIRMAN: Was the difference one of form only?

MR EVANS: Well, sir, they were not putting forward to the Board at that time the capital investment in the railway property.

MR MACPHERSON: Q. If you will look, Mr. Liddy, at statement D, sheet 1, ordinary stock dividends, 1882 -- is it 1882 or 1883? 1882, I think?

A. It seems to be 1882.

Q. 1882, there is a statement of a payment of $341,572; that is correct?

A. Yes.

COMMISSIONER INNIS: Q. Is that the only one before 1884?

MR MACPHERSON: The only one that we have knowledge of, sir.

MR EVANS: There could not be any other, sir. The company was not formed till 1881. This exhibit goes back to the year 1881.

MR MACPHERSON: Q. So that actually, Mr. Liddy, these shareholders who had purchased this stock, according to Exhibit 49-49, who had purchased this stock at a discount of 75 per cent---

MR EVANS: Not all of them.

MR MACPHERSON:Q.Not all of them, no; but those who in 1883 had paid $5 million for $20 million worth of stock, received 3 per cent on $20 million for ten years, or 12 per cent on their investment?

THE CHAIRMAN: Q. Is that right, Mr. Liddy? It

is put to you as a question.

A. It is put to me as a question, sir.

MR MACPHERSON: Q. Well, look at the exhibit, Mr. Liddy.

A. I am in a little difficult position to---

Q. Just to get the facts on the record.

A. Just to say whether that is right or not. I might say, Mr. Chairman, I did not present this exhibit in the rates case -- however. My difficulty, Mr. MacPherson, is to understand -- and I do not know the answer -- as to whether or not this discount that appears here takes in the dividends that were in that guarantee fund.

Q. Oh, no, no.

THE CHAIRMAN: Q. What is your difficulty, Mr. Liddy?

A. There is a column on this Exhibit 49-49 that reads "Premium or discount on the stock", and I do not know whether in that premium or discount the item of guaranteed interest that was handed over to the Government was included as a discount or not.

MR MACPHERSON: Q. Well, Mr. Liddy, I think it is clear enough. This stock was sold in 1883, and to me -- and I am not an accountant -- it shows the issue during the year of $20 million, and the gross proceeds of the company were $5 million. Does that not mean that the man who bought the stock paid 25 cents on the dollar of its par value and got the stock for that?

A. Really I do not know the accounting back at that time, Mr. MacPherson.

THE CHAIRMAN: Q. What was the par value?

A. The par value at that time was $100.

MR MACPHERSON: Q. Well, all right. Assuming that I am correct -- just assuming that -- the man who in 1883

paid $100 for a shore of that $20 million issue, would for ten years from 1884 inclusive receive 3 per cent on the par, or 12 per cent on his investment?

THE CHAIRMAn; You are saying the man who paid $100?

MR MACPHERSON: No; the man who paid $25, my lord -- because that is what he paid.

THE CHAIRMAN: I think you said $100.

MR MACPHERSON: I am sorry -- $25 for a $100 share.

THE WITNESS: Yes.

MR MACPHERSON: Q. That is right?

A. I think that is right.

Q. Now, can you tell me, Mr. Liddy, looking at this Exhibit 190 again, whether that 3 per cent was additional to the 1 per cent that was declared in 1890, or in 1889, the 2 per cent declared in 1890, the 2 per cent in 1891, and so on? I am just trying to ascertain the fact.

A. Well, if all the dividends that were paid out of this fund are not included in prior years, I do not know why they would include them in subsequent years, so my answer on that assumption would be that these are additional dividends.

Q. Additional dividends.

THE CHAIRMAN: These are what?

MR MACPHERSON: Additional dividends, my lord.

THE WITNESS: That is an assumption.

MR MACPHERSON: Q. I think that is right. According to this statement and from your annual reports, there was $1,950,000 paid each year on $65 million paid-up stock?

A. Yes, I think that is right.

Q. And that would be 3 per cent? That would be 3 per cent?

A. Yes, that is what it works out to.

Q. And then according to your Exhibit 190 there was the sum of $650,000 -- apart from this -- $650,000 paid to them in 1889, and $1,300,000 in 1890?

A. M'hm.

Q. So that coming back again to that man who had paid $25 for a $100 share in 1883, he would be receiving 4 per cent of par in 1889 and 5 per cent in 1890?

A. I believe so.

Q. Or a return on his investment of 16 per cent in 1889 and 20 per cent in 1890?

A. It apparently works out that way.

Q. And if he had held his stock on through these years when you were paying 10 per cent, having regard to his investment, he would be earning 40 per cent per year?

A. 40 per cent per year?

Q. Yes; he had invested $25 for a $100 share, and if he received 10 per cent it would be on the $100, which would be 40 per cent of his investment?

A. I suppose you could look at it that way.

Q. Well, isn't that the fact?

A. If the same investor held the stock throughout those years, that is all he paid for it, and he got that return; it would work out to 40 per cent.

Q. Now, Mr. Liddy, this balance sheet of 1885, Exhibit 194, and the excerpt from the letter of Mr. Stephen, Exhibit 195, confirm that the realization proceeds from share capital was $29 million?

A. Yes, sir .

Q. And Mr. Stephen's letter confirms this, that, notwithstanding the fact that in 1884 the company had established this guarantee fund guaranteeing 3 per cent, put the money with the Dominion Government, that the company just could not

sell shares?

A. No person had confidence in the project.

Q. No person had confidence in the project.

A. The company took every means at its disposal to create confidence.

Q. We are not discounting what the company did; I am trying to get the facts on the record, Mr. Liddy. That is the fact, that the shareholders on their own put in $29 million as of this date, they raised some more money by bonds, as you have indicated and as I have shown from the balance sheet, but actually the shareholders would not put in any more money, notwithstanding this $19,500,000 that had been provided as a guarantee for future dividends for ten years; that is true?

A. That is true.

Q. So the Government had to put up further money to finish the railway, and did?

A. You mean loaned us more?

Q. Yes.

A. Oh, yes, they loaned us some.

Q. And saved the situation so far as the railway is concerned?

A. That is admitted.

A. And at that time, I repeat, it was a railway company; it was a railway as such?

A. That is right.

Q. There was not the fine distinction then between the corporation and the railway that there is now?

A. Well, the corporation had not grown.

Q. No, I know; but I am coming to that later, you see. But there was not the fine distinction there; the railway and the long haul was the important thing at that time?

A. Well, the difficulty in my mind is that if it does

not exist there cannot be a distinction. However, I understand what you mean.

Q. And you agree?

A. Oh, yes.

Q. There was no more ordinary stock sold, according to your Exhibit 190, until 1903; I think that is right?

MR EVANS: Mr. MacPherson, would you put in as an exhibit in this case, so we will have it before the Commission, this Exhibit 49-49 in its entirety?

MR MACPHERSON: I will be glad to do that. I had assumed, perhaps wrongly, that it was in before, Mr. Evans.

MR EVANS: Not in this proceeding.

MR MACPHERSON: I will file it. I have only the one copy here, but I will be glad to file that, because I think it is a simple way, as Mr. Evans says, of having all the facts together. It is important to have it in.

MR EVANS: Because this question of discount and premium is all set out there, and there is a net premium of $78 million and not a net discount when all these transactions are taken into account.

MR MACPHERSON: I will deal with that later too. There were certain adjustments made. I am simply at this stage---

MR EVANS: Not adjustments; that was a net premium.

MR MACPHERSON: Well, it is a net premium. I do not want to discuss the matter particularly now; I will come to it in due course. While it is a net premium, there were certain adjustments, and there were certain adjustments involving land surpluses and so on, as my friend well knows.

THE CHAIRMAN: Well, the present question is, you will put in copies of this exhibit?

MR MACPHERSON: I have only this one copy here.

THE CHAIRMAN: We will make it an exhibit here.

MR MACPHERSON: We can mark it. Perhaps I may use it in the meantime, and probably substitute later for it another one. I think everyone has one, anyway. It will be Exhibit 196.

MR EVANS: And if I can find extra copies I will be glad to supply them.

THE CHAIRMAN: What is the number in the case?

MR MACPHERSON: It will be Exhibit 196, my lord, and it was Exhibit 49-49 in the 20% Case.

---EXHIBIT 196: Balance sheet segregating railway expenditure at Dec.31,1947, and analysis of Profit and Loss account, with memorandum and supporting statements. (Exhibit 49-49 in 20% Case).

MR MACPHERSON: Q. And, as I have said, there was no further money put up by the ordinary shareholders until 1903?

A. That is right.

Q. That is to say, it was not until the company was established---

A. There were preference shareholders.

Q. Oh, I am coming to that; but the ordinary shareholder -- there were no sales made of ordinary stock until 1903?

A. No additional sales, that is right.

Q. No additional sales. There was preference stock which was sold at 1893 or 1894 -- was that when it started? 1893, I think?

A. That is right.

Q. And there were sales in preference stock which up to 1903 amounted to $32½ million?

A. Yes, sir.

Q. But of the ordinary stock there was none sold at

all until 1903?

A. No additional amounts.

Q. No additional amounts.

COMMISSIONER INNIS: Did the preference stock carry 4 per cent?

MR MACPHERSON: 4 per cent, yes.

Q. Then there was from 1903 until 1914 a great quantity of ordinary stock sold; as a matter of fact, from 1902, from the end of 1902 to the end of 1914, there had been sold in common stock $195 million; from the first of 1903 to the end of 1914 there was an increase in ordinary stock of $195 million?

A. That is right.

Q. Now, while the shareholders had put no money in ordinary stock from 1885 until 1903, looking back to your railway property investment column, the net railway property investment had increased from $160 million in 1885 to $319 million in 1903?

A. Yes, sir.

Q. And in 1914, to bring it up to the period where you had increased your common stock to $260 million, your net railway investment had increased to $764?

A. That is right.

Q. Now will you come back and look at Exhibit 190 again. In 1885, as I have said, the shareholders had put in $29 million?

A. In cash.

Q. In cash. And their property investment was $160 million?

A. Well, subject to liens on it.

Q. That is what you show it as, Mr. Liddy?

A. Yes, but you say that the share---

MR EVANS: He is right.

MR MACPHERSON: Q. Yes, subject to liens on it; and these liens amounted to bonds, notes and equipment obligations of $52 million?

A. That is right.

Q. That is, the capital and the debt amounted to $81 million, and your road was $160 million, your road investment was $160 million?

A. That is right.

Q. The difference is $79 million?

A. I will accept that figure.

Q. Which again would be explained on the balance of the 1885 balance sheet by donations from the Government of Canada in the form of cash or land and moneys received therefrom?

A. Well, land would be only the amount sold.

Q. Well, donations of money?

A. Yes.

Q. And you accept that term "donations of money"?

A. Well, that is subject to the terms of the contract, whatever that legal entity may be.

Q. Well, in this Exhibit 196, on the very first page of your split balance sheet, statement A, you will see on your liability, "Donations and grants, $78,493,416"?

A. That is right. That is the annotation we use there. They may not be exactly donations and grants in the ordinary sense, but the contract obligations are well known.

Q. Yes, the contract obligations are well known, and the contract obligation of the company was to forever efficiently maintain, work and run the Canadian Pacific Railway; isn't that right?

A. And build it too.

Q. Yes, surely.

A. Through wilderness.

Q. And efficiently maintain, work and run it?

A. That is right.

Q. The railway.

A. I might say, Mr. MacPherson, that a clear understanding of donations and grants can be had from looking at our Government Report rather than Exhibit 49-49 or whatever the new number may be. Looking at Exhibit 183, we set all that out in a footnote to the balance sheet describing the various---

Q. Exhibit 183?

A. Yes, Exhibit 183.

Q. Well, we will see before I am finished whether it is all---

A. It is Schedule 4, footnote, a note to Schedule 4, which is the balance sheet. It sets it all out there, showing the Dominion Government grants under the original contract, main line, expenditure on lines turned over, and so on.

Q. Actually, Mr. Liddy, this sum of $16,238,000 that I have referred to, and the dividends that were paid to these holders of ordinary stock to the extent of $65 million, were paid out of capital, certainly with the approval of the Dominion Government, but they were paid out of capital?

A. Would you read me the first part of that question, please?

(The reporter read the question).

A. I do not think you want to let that question ride just the way it is, Mr. MacPherson.

Q. Well, is that so?

THE CHAIRMAN: Q. Louder, Mr. Liddy. I did not hear what you said.

A. I was suggesting to Mr. MacPherson perhaps he

should rephrase the question.

MR MACPHERSON: Mr. Evans has pointed out to me -- and I want to be fair in the matter -- in the statement that I have put in there is $3,200,000 of interest. The total amount paid for dividends was $19,500,000, but of that amount $3,261,000 was interest allowed by the Dominion Government. That is right, Mr. Evans?

THE CHAIRMAN: Interest was what?

MR MACPHERSON: Was interest allowed by the Domnnion Government, my lord.

THE CHAIRMAN: Allowed?

MR MACPHERSON: Allowed, yes. You see, the money was on deposit with them, and they allowed 4 per cent, so that the net amount advanced by the railway was $16,238,288. That is right, Mr. Evans?

MR EVANS: That is what your statement shows.

THE WITNESS: Now, your question, Mr. MacPherson, is, is this $16 million taken by the Canadian Pacific as the cost of property?

MR MACPHERSON: I am coming to that question later on.

Q. But in the meantime, if it was not paid out of capital---

THE CHAIRMAN: What is the figure?

MR MACPHERSON: This $16,238,000, my lord.

THE WITNESS: Yes, it was paid out of capital, according to my understanding.

MR MACPHERSON: Q. Then is it included in the $160 million?

A. I think it is.

Q. And it has been carried right through from the start to the end, $1,021,000,000, that $16 million that was paid to shareholders?

A. I believe that is right.

Q. And inyour suggestions to the Commission as to being what you are entitled to a return on, you seriously urge to the Commission that you are entitled to a return, for instance, on that sum of $16 million which was paid as dividends to your own shareholders out of capital?

A. Well, we look upon it, Mr. MacPherson -- yes, my answer is yes.

Q. Your answer is yes?

A. We look upon it, Mr. MacPherson, as the cost of building the railway. There were peculiar circumstances at that period of the company's history, in which it was necessary to make inducements to any person to loan us a dollar. This Canadian Pacific Railway project at that time was castigated as a project that would never earn its axle grease.

(Page 17157 follows)

Q. I have heard that.

A. And it was necessary for the Company, in order to get any funds at all, to resort to any means it could to induce people to buy our stock.

Q. For the purpose of building a railway?

A. Yes.

Q. Because you will understand that, coming from the part of the country that I am coming from I am interested in the railway as a railway, and in the long haul in particular, and these were the two things that the Government of Canada had in mind, isn't that so, in your opinion at the time this was all done?

A. Well, probably, yes, it is in my mind, but, Mr. MacPherson, I am an accountant, and interested in figures.

Q. Now, with this Exhibit 190, you also file an Exhibit 181, I think, Mr. Liddy?

A. Yes, sir.

Q. And Exhibit 181 gives the details of investment in railway property?

A. Yes, sir.

Q. And we have just been dealing with this item of $16 million too. The guaranteed dividends, that is included in the $1,271,000,000 that is there.

A. That is right.

Q. That is included there. Where would that be included, can you tell me, under what detail?

A. Whatever the particular projects were constructed up to that time they would - -

Q. Well, the particular project here, was paying your shareholders 3%.

A. Well, whatever projects had been built with the money we got.

Q. I'm curious. Would you charge a portion of the $16 million to Power Plants for example?

A. I think so.

Q. A portion to roadway buildings?

A. Yes, sir.

Q. How would it be distributed?

A. On a pro rata basis.

Q. On a pro rata basis?

A. Yes, an overhead.

Q. An overhead?

A. An overhead cost , that is right.

Q. Even although the shareholders got the money, it was treated as an overhead cost under the circumstances?

A. Well, the Company had to put it out.

Q. It did not avail them anything.

A. But we did not make any earnings to pay the dividends. Where else could we charge it?

Q. Could you not make some adjustment now and charge to surplus? (you have built up a substantial surplus) instead of putting it in the Railway Investment Account and asking for a rate of return on it?

MR. EVANS: That is a legal question, Mr. MacPherson.

MR. MacPHERSON: Well, an accounting question too. I am asking him as an accountant now, not as a lawyer.

THE WITNESS: Well, suppose we did that, Mr. MacPherson, took the negatives out. What are you going to do about the positives?

THE CHAIRMAN: Q. About cost?

A. Well, there are some things that are in here less than cost. There are some things probably here more than cost, just as Mr. MacPherson has been describing. He suggests

to me that we take only those things less than cost. This has been an historical cost of our road property. That is all this Exhibit 181 sets out to do.

MR. MacPHERSON: Q. Now , when you take this Exhibit 181 which shows details of investment in railway property, there is, for instance , included in that your land surplus account?

A. No.

Q. That is not there?

A. No, sir.

Q. Are donations there?

A. Yes, donations to the extent that we, with the donations, we built property.

Q. With the donations you built property?

A. Built the railway and so on.

Q. And you are asking for a return, of course, as I understand it, on the money and the proceeds from the land that was money, that you put into property?

A. Yes, all this property here represents investment, and we are simply asking that a return should be made on this investment.

Q. Should there be a set-off as against this $1,271,000,000 of your depreciation reserve?

A. Oh, yes, we have set it off.

Q. Where is it set-off here?

A. Well, it is not net investment; it is the statement of gross investment.

Q. Well, your gross investment. Your gross investment is $1,271,000,000?

A. Yes.

Q. And your depreciation reserve was$340 million at 1948 I think?

MR. EVANS: He gave all that in chief , the working capital figure.

MR. MacPHERSON: Their working capital figure of $70 million. That is right.

THE CHAIRMAN: How do you explain this difference between the two results? The one in Exhibit 190, net railway property, is $1,021,000,000, and Exhibit 181 shows $1,271,000,000?

MR. MacPHERSON: That is what I was going to get him to explain, my lord.

THE CHAIRMAN: I see.

MR. MacPHERSON: Q. Actually, Mr. Liddy, this is a gross figure here of $1,271,000,000?

A. That is right.

Q. And to reconcile that with $1,021,000,000 as you have it here, you take certain items into consideration?

A. Yes, I will repeat them just at this stage for the record. As at December 31, 1947, our gross investment in railway property as shown in Exhibit 181 totalled $1,271,994,000, and to that we add railway working capital, which is not represented of course in actual property, outside of materials such as supplies, we add $70 million. That gives the figure of $1,341,991,000. From that figure we deduct our railway depreciation reserve totalling $340,653,000 giving a net depreciated investment base of $1,001,000,000.

MR. MacPHERSON: You see, my lord, what he is taking is the end of 1947. End of 1948 gives $1,021,000,000. It is the end of 1947, which in turn reconcile s it to Exhibit 49 - 49?

THE WITNESS: That is right.

Q. Now, in that $340 million that was taken as depreciation reserve, Mr. Liddy - -

A. $340 million?

Q. $340 million.

A. Yes, sir.

Q. That was really an adjustment in depreciation back to the time that Income Tax started in 1920?

A. Yes.

Q. Let me ask you this. Did the Income Tax Department take 100% of depreciation each year?

A. Of our depreciation?

Q. Yes.

A. Yes.

Q. They did. And did the Income Tax Department take up depreciation on acquired lands?

A. They took up this total amount.

Q. From 1920?

A. That is right.

Q. But, before 1920?

A. Well, that is when the Income Tax became applicable to the Canadian Pacific, the first two years, 1918, 1919.

Q. Applicable to every - -

A. The Government passed a special Act assessing the Company's special taxation.

Q. And Income Tax had become applicable to everyone in 1917, I think it was, to the individual?

A. To the individual and to the Canadian Pacific.

Q. Which has grown with the years as the Canadian Pacific has grown, income tax?

A. Yes, sir.

Q. No, Mr. Liddy, prior to 1920 you have not in this column, Net Railway Property Investment, reflected any past accrued depreciation (that is, Exhibit 190), past accrued depreciation before 1920?

A. Oh, no.

Q. You have reflected there the depreciation reserve that has been established to cover the period from 1920 on?

A. Yes, together with the adjustments we made.

Q. Yes, with the adjustments you made, I know, but from 1885 to 1920, there is nothing in that column indicating any provision for depreciation?

A. No, but you understand, Mr. MacPherson,- if you refer to my evidence-in-chief- that we made heavy and substantial credits and adjustments to our depreciation reserve which far exceeded the depreciation from 1920 to 1948 or 1947. I will repeat the figures for your information again. For example, we credited to the reserve $54 million of charges made to working expenses prior to the adoption of depreciation accounting, and we have also credited $164 million special appropriations from profit and loss, since the time of the adoption of depreciation accounting. Those two amounts total $218 million, which compares with the depreciation charged since 1920 of $122 million.

Q. Well, let us not confuse it, Mr. Liddy. The fact is that in adjustments of Income Tax there was a certain adjustment of figures over the years, isn't that right?

A. Yes.

Q. And all these figures that you have now given were washed out one way or another in coming to the figure of $340 million which was taken as your depreciation reserve, from 1920?

A. But the Income Tax Department are concerned with less than half of that, that is my point. I did not intend to confuse it.

Q. Well now, you say that the Income Tax Department are interested - -

A. Were concerned.

Q. Were concerned in less than half of that $340 million?

A. That is right.

Q. And that only applies to the period from 1920 to date?

A. The $340 million?

Q. Yes.

A. No.

Q. Well, what portion does that $340 million cover?

A. The $122 million that I described as charges to working expenses less retirals, appertained to the period since the adoption of depreciation accounting.

Q. That is right.

A. $122 million.

Q. That is 1940 - 1942?

A. Yes, and I think there are some inland steamships in 1934, I think.

Q. But the bulk of it was from 1940 - 1942?

A. Yes. Now, the other amounts were adjustments, and some of them of course were of interest to the Income Tax Department because we had charged out during those years depreciation in computing our Income Tax. So that taking altogether the $340 million that we have in our depreciation reserve, it amounts to a very substantial part of our total depreciable property. From the figures I gave (I can

turn it up) it was 47%.

Q. Did you make these adjustments - take your annual report of 1948?

A. Yes, sir.

Q. On page 10 we will read the Profit and Loss Account paragraph:-

"The profit and loss balance at December 31, 1947, of $279,123,961, was reduced by the amount of the 3% dividend on Ordinary Stock, $10,050,000 which was declared after the close of 1947.

The attention of the shareholders is drawn to the transfer of $88,568,940 from profit and loss to depreciation reserves. Prior to 1933 - -"

(You had better follow and see that I am reading it properly, Mr. Liddy.)

"Prior to 1933, your Company accounted for changes in property only at the time when the renewal or retirement took place. In that year, accrual of depreciation was commenced in respect of steamships and later progressively for other classes of depreciable property. In addition to provisions for depreciation made from annual income, certain transfers of available credit balances and amounts previously appropriated from surplus have, from time to time, been made to the depreciation reserves, which at December 31, 1947, amounted to $324,478,772."

Then this is what I want to emphasize particularly:-

"On the other hand the accrued depreciation at that date as shown by the depreciation reserves, computed on the basis approved and recorded by the Income Tax Department, which include

depreciation of accruals from 1920, amounted to $413,047,712. As the depreciation methods now being followed in the corporate and Income Tax records are identical, it was deemed desirable to bring the accumulated reserves also into agreement."

That was the annual report of 1948?

A. Yes, these are corporate figures that I mention throughout here, of course.

Q. Corporate figures?

A. They are not railway figures.

Q. Again you have the distinction that exists as between corporate on the one hand, rail on the other?

A. Yes, sir.

---RECESS

(Page 17167 follows)

--- On resuming:

MR. MACPHERSON: Q. Mr. Liddy, I had referred to the Land Surplus Account; and I think under the Exhibit 49-49, which is now in 196, the Land Surplus Account was set at $98,200,000. It is right on the first page, Mr. Liddy, statement A, $98,279,000?

A. Yes, that is before any write-offs from the land surplus, I take it.

Q. It is carried in the non-rail enterprises and investments?

A. Yes.

Q. As a liability, $98,200,000 odd?

A. That is adding back, I think, all the appropriations that were made from the land surplus.

Q. Adding back all of them?

A. Well, I know the land surplus is not $98,000,000 today.

Q. What is it today?

A. Around $65 million.

Q. Well, Mr. Liddy --

A. I will give you the land surplus.

Q. It is in the Report. Can you tell me how much land was actually received by the Canadian Pacific Railway in acres?

THE CHAIRMAN: You mean from the governments?

MR. MACPHERSON: From the Government of Canada.

THE WITNESS: Well, there was an original grant of $25 million, and there was $6 million odd surrendered of that account to meet some obligation that we had to meet with the government; and then we acquired some land, with other railways, that we had leased or acquired...

Q. Do you know how much that was, Mr. Liddy?

A. Not exactly, but I think it brings it back somewhere around the $25 million or $26 million level again.

Q. This might help you, Mr. Liddy: Page 89 of the Duff Report shows that at December 31, 1931, the lands granted from the Dominion were 24,953,133 acres, and from the provinces, 10,611,846, or a total of 35,564,979.

Then I want to quote from a speech made by Sir Edward Beatty at the Holstein-Friesian meeting in Toronto, on the 5th of February, 1936, in which he refers to the surrender of six million acres to the Dominion Government for a consideration, and other land dealings. He said:

"6,793,014 acres returned for a cash consideration of $10,189,521 --"

MR. MACPHERSON: My lord, that is, of the 25 million acres, 6,793,000 were surrendered for $10 million in cash, taken in its stead from the Dominion Government.

"Subsidiaries got 6,139,963 acres from the Dominion, but at the time the subsidiaries were acquired by the C.P.R. they owned only 2,235,145 acres."

Q. That was his statement, Mr. Liddy.

COMMISSIONER INNIS: Those subsidiaries are included in what was referred to as "Provinces".

MR. MACPHERSON: Yes, my lord.

COMMISSIONER INNIS: All western provinces?

MR. MACPHERSON: I am sure it is all western provinces, but --

THE CHAIRMAN: When was this?

MR. MACPHERSON: This was made --

THE CHAIRMAN: The only western provinces in those days were British Columbia and Manitoba.

MR. MACPHERSON: That is right; but these western provinces were at one until 1930; Alberta and Saskatchewan did not have their resources, so they could not alienate any land in that connection.

THE CHAIRMAN: Manitoba did not have them until 1930.

MR. MACPHERSON: 1930, I think that is correct, my lord, but British Columbia certainly had alienated lands. For instance, in the cross-examination of Mr. Jefferson, the Commission will remember my examination in connection with the British Columbia Southern and the acreage taken over then.

COMMISSIONER INNIS: I was wondering whether the reference to the provinces was perhaps inaccurate, and whether that was not land granted by the Northwest Territories or the Dominion.

THE CHAIRMAN: The Territories would be a Dominion grant.

MR. MACPHERSON: That is right.

THE CHAIRMAN: I think the word "provinces" really means British Columbia.

MR. MACPHERSON: If further information can be obtained I will obtain it.

THE CHAIRMAN: Unless we find that Ontario and Quebec made grants; some subsidiaries may have had grants.

MR. MACPHERSON: It gives a breakdown at Page 89.

MR. COVERT: That is of the Duff Report.

MR. MACPHERSON: Page 89 of the Duff Report.

It reads:

"In addition to cash and guarantees of securities, immense grants of land were made to railway promoters by Dominion and provincial governments, as follows:

Dominion ..... 31,781,847 acres"

THE CHAIRMAN: That is not only C.P.R.?

MR. MACPHERSON: No.

"Nova Scotia.....	160,000	acres
New Brunswick	1,788,392	"
Quebec	2,085,710	"
Ontario	3,241,207	"
British Columbia	8,233,410	"
Total.....	47,290,566	"

MR. COVERT: That is both railways.

MR. MACPHERSON: That is for all railways.

Q. Now, Mr. Liddy, have you any idea how much was realized from these lands by the Canadian Pacific Railway Company?

A. I think our Land Surplus indicates that.

Q. That is what is left of it?

A. I am looking at Exhibit 49-49 in the 20 Per cent Case, now Exhibit 195, I think, in this case -- The $98 million I spoke of is set out on Page 5 of Statement A, and it shows the land surplus by our Annual Report as $60, 722,000.

Q. That is land surplus? I am asking you this question, Mr. Liddy, can you tell me what was realized by the sale of lands or mineral rights?

A. No, I haven't got this broken down.

MR. EVANS: Do you want the gross or net figure?

MR. MACPHERSON: The gross figure.

THE WITNESS: No --

MR. MACPHERSON: Q. Is there any analysis of that in existence, that you know of?

A. Not that I know of.

Q. Not that you know of?

A. But it does include any coal and oil rights, and anything like that that have been realized.

THE CHAIRMAN: What is that?

MR. MACPHERSON: Coal, oil and gas rights, and mineral rights, that went with the land.

THE CHAIRMAN: Is it understood in all cases that the Crown did grant mineral rights along with the land?

MR. MACPHERSON: Yes, my lord.

MR. EVANS: My friend is generalizing...

THE CHAIRMAN: Take for instance British Columbia, did it grant the rights?

MR. MACPHERSON: I could not undertake -- My impression and my belief is that in the Prairie Provinces the mineral rights went with the surface rights. I think that is correct.

MR. EVANS: I assume so.

THE CHAIRMAN: In the case of the C.P.R.?

MR. EVANS: Just as an example, from the lands granted to the Great Southern British Columbia Railway, from the province to that railway, fifty thousand acres of coal land were ceded to the Dominion. So that it is pretty difficult to generalize, and to say that we got all the lands with all the minerals.

THE CHAIRMAN: I think it worthwhile looking into that, Mr. MacPherson.

MR. MACPHERSON: I will, my lord.

THE CHAIRMAN: To see whether the Crown retained any mineral rights.

MR. MACPHERSON: I will, my lord. I would make this observation in the first place that the cession back to the Crown of fifty thousand acres in British Columbia of coal bearing lands would indicate that in British Columbia, as in the Prairie Provinces, accompanying the surface rights to the lands would be the mineral rights as well. However, so that we can have accurate information for the Commission, I will get that for you.

In connection with this Land Surplus Account, the interest on that account, whatever it may be -- $65 million, I think, according to 1948, you say -- the interest is credited to other income?

A. If we have deferred payments, for example...

Q. Agreements for sale of land?

A. That is right.... in which the purchaser agrees to pay the interest on the principal that is outstanding.

Q. And you have a considerable quantity of that?

A. Well, it is going down every year now. But that is a financial transaction, that we made to the sale of land; we took it out of our Land Account, and now it becomes a financial transaction, and we take it into our corporate income.

Q. That again is a distinction between the corporation and the railway as such?

A. Yes. When the sale is completed it goes out of the land account and becomes a financial transaction of our other income endeavours.

THE CHAIRMAN: Q. You say when the sale is completed; you mean when the sale is made, when the contract is entered into.

A. That is right, sir.

MR. MACPHERSON: Q. When it ceases to become realty it then becomes personalty, I suppose. Then the interest received goes to other income?

A. That is right.

Q. But that only started in 1940, did it not?

A. I don't know.

Q. I suggest to you--

THE CHAIRMAN: You are talking of interest received from the purchaser?

MR. MACPHERSON: Yes, deferred...

THE CHAIRMAN: Q. What about principal received from the purchaser?

A. We take it out of the Land Account when the sale is made.

Q. The whole thing becomes an outside transaction.

A. That is right. If by any chance the purchaser is not able to meet his payments, and we re-purchase the land, we take it back into our land account again.

MR. MACPHERSON: Q. If I buy a section of land from the Canadian Pacific Railway in Saskatchewan -- say I bought it two or three years ago -- and I want to pay it off and obtain title. . . we will say there is principal of $1,000 owing and $200 interest owing. . . would the $200 interest go into other income?

A. Yes.

Q. What happens to the $1,000?

A. Well, that is closed out in the land account. You see the land account consists on the one hand of an appraisal of the land. It may be valued at -- what figure did you say?

Q. $1,000.

A. Well this particular parcel of land may be valued at $1,000, and you sell it for $1,000; the two sides cancel each other out.

Q. It does not go into the railway account?

A. Oh, no.

Q. But the $1,000 cash that I pay on account of that section as principal, that never goes near any railway account?

A. No.

Q. And the $200 that I pay as interest, that never goes near any railway account; that goes into other income.

A. Unless we have to lean on other income; that is lean on your $200, as we have had to do many years.

Q. We will probably hear about the leaning later on. In any event, the fact is that in 1939 --

THE CHAIRMAN: Q. What about your investment of that $1,000? How does it affect your investment figure?

A. Our railway property investment?

Q. Yes, your net railway property investment.

A. No, sir; it was never in there.

Q. It was never there?

A. Never there.

MR. MACPHERSON: Q. You deal with that in a separate compartment dealing with land, the net result of which is represented by the Land Surplus Account?

A. Entirely separate. That is one of the reasons we call our balance sheet the General Balance Sheet.

Q. Because you did not use rail, on the one hand... you segregated the land, and the proceeds from it in any form were segregated completely from rail?

A. We have separate accounting for it, except when we use money for land purposes and then lose it.

Q. I beg your pardon.

A. . Except when we have used money for land u purposes and then it is lost.

Q. Of course, you are a rail company, established as such, and one of your obligations is to maintain and run a railway?

A. Efficiently forever.

Q. Mr. Liddy, in 1939, according to your Annual Report of that year at Page 35, the interest on deferred agreements was $505,000; in 1938, at Page 35, it was $735,000.

THE CHAIRMAN: Would you please repeat that?

MR. MACPHERSON: I am pointing out this item of interest on deferred agreements is a sizeable matter. In 1938 it was $735,000 and in 1939 it was $505,000; and from 1940 until 1949 we have no word of it, because it has been taken by other income since that date.

THE CHAIRMAN: Taken by other income?

MR. MACPHERSON: Credited to other income.

THE CHAIRMAN: Where was it credited previously?

MR. MACPHERSON: To this Land Surplus Account.

Q. Is that right, Mr. Liddy?

A. I think that is right, Mr. MacPherson.

Q. I think that is right, but we want to be sure. Up until 1940 the interest was credited to the Land Surplus Account, and then in 1940 there was a departure and you started taking this interest and crediting it to other income?

A.q I think that is right.

Q. Let us see the Annual Report so far as land is concerned. This will be of interest in that it indicates other earnings from land. In your 1930 Annual Report, at page 28, you show miscellaneous earnings from land at $1,237,718, and you give particulars of these: revenue from coal rights in Alberta, $346,768; revenue from gas rights, $347,692; revenue from all rights, -- these are all in Alberta, Mr. Frawley -- $543,318, or a total of $1,237,718. Is that correct, Mr. Liddy?

A. Where are you reading from?

Q. Page 28. My note is 1930, miscellaneous earnings. I am sorry, that is not the right page.

A. I will accept your figures subject to check.

Q. Subject to check. I may have given you the wrong page. There it is, page 28: petroleum rights, gas and coal lands. That is correct, from the Annual Report, Mr. Liddy.

A. Yes. If it is not right, I will correct it.

Q. From 1930 on you have not given particulars in your Annual Report of these miscellaneous earnings, but in 1948, at page 30, of your Annual Report, you show them at $1,812,495?

A. Yes; I presume they are the same earnings. I do not know.

Q. You presume that they would be the same earnings, and that they would be the revenue from coal rights in Alberta and gas and oil in that province. You do not know what they are in 1949.

MR. EVANS: Are there some at Estevan?

MR. MACPHERSON: Maybe some at Estevan.

THE WITNESS: Yes, I think that is right, Mr. MacPherson.

MR. MACPHERSON: Q. In any event, your Company has substantial oil rights in western Canada?

A. I think that is a correct statement.

Q. Any around Leduc?

A. Yes, we have some around Leduc.

Q. And Redwater, in Alberta?

A. I really don't know whether it goes up northwesterly there or not.

Q. In any event, you haven't it available at the moment, and I am not pressing for the information as to what the miscellaneous earnings may have been in the year 1949; but in 1948 they were $1,812,000?

A. Yes. I will say this, of course, they are all with respect to land holdings of one kind or another.

Q. Pardon?

A. The miscellaneous.

Q. I know they are all in connection with land.

THE CHAIRMAN: We find all those in other income, do we?

MR. MACPHERSON: Q. No, my lord, the onl thing that goes into other income -- and Mr. Evans will correct me if I am wrong -- my understanding of the situation is that there is a separate account called Land Surplus Account, and that deals not only with surface rights of land, but everything in the way or mineral rights that may flow from these lands. I think it also covers townsites.

Q. Does it cover town sites, Mr. Liddy?

A. Yes, it does, Mr. MacPherson.

Q. And that Land Surplus Account is kept by itself. I am going to refer to the matter in connection with the Land Surplus Account later.

THE CHAIRMAN: You say it is not to be found in Exhibit 190 at all, is that so? It is not found there by name.

MR. MACPHERSON: No, there is no reference to it; it is not in 190 at all.

THE WITNESS: I would like to correct an answer I gave, Mr. MacPherson, that the sale of townsites is taken into other income?

MR. MACPHERSON: Q. The sale of townsites is taken into other income?

A. Yes.

COMMISSIONER ANGUS: Q. The capital price?

A. The cash.

THE CHAIRMAN: Q. That goes into other income.

A. That is right.

MR. MACPHERSON: Q. Has that always been so?

A. Well, I don't understand that, Mr. MacPherson. At lunchtime I will look it up and let you have the answer.

Q. You had your acreage of farm lands, for instance, that was one thing?

A. That is right.

Q. And in addition to that you had townsites?

A. Yes. We even bought some lands of our own for townsites.

Q. You bought some land for townsites, sub-divided it and sold it?

A. Yes.

Q. I think you might look up at lunchtime, and find out where this townsite fund was carried, whether it was carried in conjunction with other income, or where it was carried.

A. I will do that.

THE CHAIRMAN: Have you determined definitely whether the income received from gas and coal rights are to be found here accounted for as Other Income, or in some other way?

MR. MACPHERSON: They are in the Land Surplus Account.

THE CHAIRMAN: They are not in 190.

MR. MACPHERSON: No.

COMMISSIONER INNIS: No interest from that account goes into 190?

MR. MACPHERSON: Q. Mr. Covert just points out to me that in the Land Surplus Account for 1948 there is land for townsites?

A. Yes.

Q. You might check that.

A. I am pretty sure that is right.

COMMISSIONER ANGUS: Q. Following up Dr. Innis' question, is there some corporate income that does not appear at all on Exhibit 190?

A. Yes, there would be. The Land Account would not be on Exhibit 190.

MR. MACPHERSON: Q. Is there anything else?

A. That is all I know, Mr. MacPherson.

Q. That is all you know of in Other Income?

A. Yes.

THE CHAIRMAN: Did you say townsites went into Other Income, or are you getting that?

A. No --

Q. You want to look into the whole thing for us?

A. Yes. I was looking at some adjustment figure which misled me. I am pretty sure the land in townsites

sales are in the Land Account, but I will specifically verify that at lunchtime.

MR. MACPHERSON: I think, my lord, the position is that you have now the railway investment account and you have Other Income less taxes, and the Land Account is something which is separate and apart.

THE CHAIRMAN: The point is, what is Other Income? What income is there that is not included in this Other Income?

MR. MACPHERSON: That is what we will pursue in the Land Surplus.

THE CHAIRMAN: There is Railway Income and Other Income and then there is a third.

THE WITNESS: The Land Account. That is all.

COMMISSIONER ANGUS: Q. It would have to be shown as Income for taxation purposes?

A. Yes, if you look at our Balance Sheet, Dr. Angus, you will find that there is a Land Surplus Account down in the right hand side, sir. That is a net figure; that is floated in there as a net figure.

THE CHAIRMAN: Q. How much is it?

A. I am looking at the Annual Report for 1948 of the Canadian Pacific Railway, and the Land Surplus at that date was $63 million. Now, that is a net figure; those assets and liabilities and income making up that are not reflected in this Balance Sheet, other than in the net figure.

COMMISSIONER INNIS: Q. To take Mr. MacPherson's example, suppose that payment is made in respect of the land, $1,000, paying off the balance of the principal, and $200 paying the interest. That interest would be subject to corporate income tax, would it not?

A. Yes, that would be income.

Q. When you have Other Income less tax, what is shown as Other Income, or does it include the tax on income that goes into the Land Account?

A. The Land Account would include its own tax.

Q. It has its share of corporate income tax?

A. Yes, sir.

THE CHAIRMAN: Q. But it is in here as Other Income?

A. No, it is reflected there as Land Surplus.

MR. MACPHERSON: Q. Is it included as capital in any way, Mr. Liddy, in your corporate setup?

A. In Exhibit 190.

Q. In any Exhibit -- 190 or in your Annual Report -- is it considered as part of your capital?

A. It is considered part of our assets, yes.

Q. It is assets, but is it incorporated in any way in 190?

A. No, sir.

Q. It is not here at all?

A. No, sir.

Q. This Land Asset has been used for many purposes by the railway, hasn't it?

A. Many purposes.

Q. I have read you excerpts from Mr. Stephen's letter back in 1884: 6 million acres were surrendered to the Dominion Government in net return for $10 million; and then there were land grant bonds, were there not, at one time?

A. Yes, they were secured by some land holdings.

Q. And then there was a note certifcate issue in 1914?

A. Yes.

[illegible]

[illegible]

[illegible]

Q. Are you familiar with that?

A. Not very. I think it is all gone now.

Q. It is all paid off?

A. That is right.

Q. I am suggesting to you that if you consult the Annual Report of 1914 at Page 8, you will find where the company proceeded to raise some money by way of a note certificate issue. I will read you paragraph 12 of the Annual Report of 1914.

MR. EVANS: How does that affect the figures today?

MR. MACPHERSON: It affects the figures today in this way: I will show two things from them in answer to my friend Mr. Evans. First, there was $52 million of the note certificate issue sold. They were not sold to the public; they were sold to the shareholders at 80 cents on the dollar, and the shareholders received therefor a yield of about 7½ per cent on those notes. Then, on the two issues, there were some $15 million in interest, which was simply charged to this Land Surplus Account. That is my answer to Mr. Evans.

Q. The facts are as I have stated them, to your knowledge, Mr. Liddy, that there were $52 million of six per cent note certificates sold as against land security in 1914?

A. I believe that is right.

(Page 17184 follows)

Q. And it was sold to shareholders, offered to shareholders, at 80 per cent of its face value?

A. I don't know about that transaction.

Q. Well, that is on page 8 of the Annual Report for 1914. It was taken up by shareholders, and the amount realized was $41,600,000. Do you know what that money was used for?

A. Not specifically. There may have been certain projects mentioned, but some of it would come into the general pot of the treasury.

Q. I think I had better read this paragraph 12. This is land surplus, this is money that has come from financing in respect of land, on note certificates, and I am suggesting to you that the interest in respect of these certificates was charged up to land surplus account. Paragraph 12:

> "The accounts for the year show that $35,571,959.97 had been advanced from your current funds to meet the cost of additional railway mileage and ocean steamers against which no securities have been issued or sold."

That is additional mileage and ocean steamers against which no securities have been issued or sold.

> "In ordinary course, 4% Consolidated Debenture Stock would have been utilized to meet this expenditure but market conditions were not favourable to the sale of this security in large amounts without unduly depressing the market price.
>
> In these circumstances your Directors decided to create a Special Investment Fund composed of the deferred payments on land sold, and securities in which land funds had been invested, to the amount of $55,000,000. and to issue against this fund and the Company's credit ten year Note Certificates to the

amount of $52,000,000, carrying interest at the rate of 6% per annum, to be offered to the shareholders at 80% of their face value, this providing all the money required for the present purposes of the Company, and at the same time giving the Shareholders participation in the proceeds of land sales to the amount of about $10,000,000."

That is to say, it was by way of being an additional dividend of $10 million to the shareholders?

A. Well, I think the language speaks for itself.

Q. So do I.

A. I do not know what those note certificates could have been issued for on the open market, I am sure. Supposing they could only have been sold at that time at a discount of 90 per cent, then it would not have been the difference that you speak of.

A. I emphasize these words in the report:

"and at the same time giving the Shareholders participation in the proceeds of land sales to the amount of about $10,000,000."

A. Well, that is what it says.

Q. And then the paragraph goes on and says:

"The issue was entirely successful. The Note Certificates, with interest will be paid off in instalments without any encroachment on your revenue from traffic, and the 4% Consolidated Debenture Stock can be marketed in such amounts and at such times as may be most advantageous."

A. M.'hm.

Q. Now, the first part indicates that the money was spent for additional railway mileage and ocean steamers; that was about the time, '13 and '14, when you were expanding your Atlantic fleet, was it not?

A. Yes; the Allen Line came in around that time.

Q. And proceeds of these certificates received from land were, partially in any event, applied for this purpose of buying ocean steamers?

A. That is right.

Q. Which again draws the distinction between the corporation as such and the railway as such, because ocean steamships are Other Income, are they not?

A. Yes, that is where they are. I do not know where the distinction is drawn, though, by this transaction. We simply used some means of financing, of doing some financing.

Q. Yes?

A. I do not think that draws any distinction in itself.

Q. This land which was earned, as you say, as Mr. Stephen says, in the building of the railway, and with the specific undertaking that the railway would be continued, maintained, and which was taken at a time when your railway undertaking was the primary undertaking of your corporation -- that has faded a bit into the background with the development of other branches of the corporation's endeavour?

A. Well, it should not fade; I hope it won't fade, but the other endeavours have expanded and come up.

Q. And the land has been used -- I am not arguing rightly or wrongly that it has been used -- but it has been used for the purpose of securing the funds to launch on these other endeavours that provide Other Income to the corporation?

A. That is right. It has been a help; it was a help to us.

Q. And in the financing of the first note certificates there was an amount of $10 million which in effect was an additional dividend to the shareholders who took up the

notes?

A. I do not know what premium was realized on those notes, I am sure.

Q. Well, I will tell you the receipts and expenditures apparently for the $52 million; there was received $41,600,000. Then there was some further financing by way of note certificate at a later date?

A. Have you a date in mind?

Q. 1924, $30 million 4 per cent sinking fund secured note certificates -- 1924 Annual Report.

A. Was that in addition to the previous---

Q. In addition to the previous one, yes. I will read you 1924, sale of securities. Page 7 of the 1924 Annual Report:

> "During the year your Directors authorized the creation and sale of the following securities: $12,000,000 10-year 5% Collateral Trust Gold Bonds; $10,000,000 4% Consolidated Debenture Stock, coupon form."

Is this the Annual Report? Yes, it is.

A. 1924, yes.

Q. "$30,000,000 4½% Sinking Fund Secured Note Certificates, secured by the assignment of unpaid purchase moneys or deferred payments on land sold.

The widespread character of the Company's operations makes it necessary that it should always maintain substantial cash balances and as provision should be made for the capital expenditures to which the Company has been committed in previous years, it was decided to utilize the deferred payments on land sales as collateral security to an issue of note certificates which would enable such balances to be maintained and these expenditures to be met from time to time without increasing

the fixed charges on your railway property and its revenues."

A. Yes, that is an incidental benefit there to the railway property.

Q. An incidental benefit to the railway property. And the $30 million, the proceeds, the amount realized there, $26,889,000, was used for the general corporate purpose?

A. Yes, I think that would be a proper description -- some of it would be for railway.

Q. Some of it for railway?

A. I would think so.

Q. Some of it for the Royal York Hotel?

A. When was that issue made? In 1924?

Q. In 1924, yes.

A. I do not think we had any---

Q. Had not decided to start the Royal York Hotel then?

A. I would doubt it.

Q. You would doubt it?

A. It was not completed till 1930, I think.

Q. Oh, I thought it was before that.

A. 1930, 1929?

Q. Completed in 1929, I think. Well, these note certificates in any event have now all been paid off, have they not?

A. Yes. We have no debt of that kind now.

Q. You have no debt of that kind outstanding at all now. But the sale of these certificates was partly to finance rail operations and partly to finance other operations of the corporation?

A. Yes, I would think that would be right, Mr. MacPherson.

Q. But generally you had the common pot that you have told us of; that is right, Mr. Liddy?

A. Oh, yes, we had a common treasury, that is right.

Q. And it would be difficult to ascertain how much of it had been used for one purpose and how much for another?

A. Almost impossible.

Q. Almost impossible. But that was the method of financing that was carried on?

A. Wherever we could get the cheapest money, we used whatever good collateral we had.

Q. Now, you cannot tell me how much was realized actually from the sale of land; the records of the company would not disclose that?

A. I would not want to make a categorical statement that it does not. I have not seen it.

Q. You have not seen it?

A. No.

Q. Have you ever considered how much might have been realized from land?

A. Well, you see, if you look back in past history, Mr. MacPherson, the land as it came to us was of little or no value; it was---

Q. Little or no value; yes?

A. The value attached to it as alternate sections of land between, the line between the sections that we were given in our grant, became sold, and then we could sell our land at some price, and then we made extensive expenditures on irrigation and developments of that kind, and we sent our agents over to Europe, practically throughout the world, to advertise this land and attract settlers. We did a lot of that, and we are still doing a lot of that, as a matter of fact.

Q. That is all charged up to land surplus account?

A. Yes -- not altogether perhaps, but we have been very lenient with settlers, particularly commencing with the depression. I think we have cancelled obligations that they undertook amounting to more than -- $30 million, was it?

Q. You had lots of good company in that, Mr. Liddy.

A. $36 million.

Q. You had lots of good company; most of the corporations did at that time, to their credit.

A. Well, we were all around out there---

Q. We were all in the same boat at that time.

A. The whole railway, the whole corporation endeavour, has been tuned to get this land settled, so that we might be able to have freight produced from it, and so on.

Q. That is, the concern was, and is, that the land should be settled and that people should carry on on the land?

A. That is what the Government gave it to us for.

Q. That is what they gave it to you for?

A. As much as anything, I believe. And I might say, Mr. MacPherson, that in the last few years we have turned over to I think it is co-operative societies large tracts of land if they would just take it off our hands.

Q. I think you are thinking of the Eastern Irrigation District in Alberta.

A. I think there were two districts.

Q. That was in Alberta, in any event?

A. Not in your province, you mean?

Q. Not in our province. I am not blaming Alberta for that at all, but I will come to that a little later; I will refer to that. But have you any idea how much was actually realized? Have you endeavoured to estimate it at

any time? Would it be $500 million?

A. Oh, no.

Q. Would it be $200 million?

A. The total of our land account---

Q. Oh, I know, but that is the balance. I would ask you if you could during the lunch period, Mr. Liddy, endeavour to get for the Commission the actual realization from lands and those rights that flow from lands that you got from the Dominion or from the provinces in connection with the construction of the railway.

A. I do not think I can go beyond----

MR EVANS: I was just going to ask Mr. MacPherson whether he meant gross or net.

MR MACPHERSON: Well, I think I would like to know the gross figure, because there are certain nets -- I realize that there would be adjustments from time to time in connection with it, large sums.

MR EVANS: Big expenditures.

MR MACPHERSON: And expenditures, yes. There have been expenditures in connection with---

THE CHAIRMAN: Why can't you have both gross and net?

MR MACPHERSON: Well, let us have both gross and net. I am quite appreciative of the fact that this money was spent, some of it in connection with the irrigation work, in Western Canada, particularly in the Province of Alberta; I am quite appreciative of the fact that much of it was spent in connection with immigration and colonization work; but if you take it all into consideration, if you could let us have the gross and the net both---

THE CHAIRMAN: How that is to be looked upon now is a matter of argument.

MR MACPHERSON: That is right, my lord. I just

wanted to get the figures.

MR EVANS: My point was this, that if you have the gross and the expenditures, you get the net, and what they now have in the net total figure is the net balance. I just wondered what purpose could be served by this research into the past to see the sales and proceeds and the expenditures. For the life of me I cannot see the relevancy of it.

THE CHAIRMAN: Well, I don't know.

MR MACPHERSON: My lord, I do not want to turn a battery of bookkeepers into the books of the C.P.R. to ascertain this. If the information is not readily available, then of course I am not going to press it, but I would like to know for the purpose of argument -- because we have to argue this ultimately, all phases of it -- I would like to know, and I would feel that there should be available in some form some general gross figure that had been obtained by the C.P.R. from these lands. I cannot quite understand how there should not be something available.

MR EVANS: We did not say we could not get a gross figure, but we said if you get the gross you really should have the expenditures charged against that land operation or land account, and when you get that, then you have got the net, and what we already have on the exhibits is the net balance after all the years. I do not know what else is wanted.

MR COVERT: It would strike me that the net would be the figure that you would want to know -- I don't know. That is what it would look like to me, and I just wondered why the gross is important.

COMMISSIONER INNIS: Well, isn't it important in the sense that it gives you a general picture as to how effectively the fund has been used?

MR MACPHERSON: That is right, my lord.

MR COVERT: Well, I am just trying to find out why; I don't know.

THE CHAIRMAN: I would like to know what it would involve in the way of time and research.

MR MACPHERSON: Yes. I do not want to be unreasonable, my lord.

THE CHAIRMAN: Perhaps you could discuss it with Mr. Evans.

MR MACPHERSON: I will; but I would think that there would be a gross figure available. I want to find out what has been realized from the land. Then there has been spent, for instance -- there has been charged up to this land surplus fund the sum of $15 million for interest on these note certificates; I mean, that is part of it that has gone. The net is down to $63 or $65 million or whatever it is now, but that is part of it. I realize that there was transferred to the Eastern Irrigation District in Alberta certain lands and certain deferred agreements; that comes out of it. I realize that there were costs of immigration and colonization; that comes out of it. I realize all that.

MR EVANS: But we gave you the figure before that is done. We put back all those appropriations to get your figure as 98. You are giving the net as 65, but the figure in this exhibit we have had is 98.

MR MACPHERSON: I am making this statement, Mr. Evans, now, that the amount realized from the sale of lands, miscellaneous earnings from lands, very greatly exceeds $98 million.

MR EVANS: Of course the gross exceeds the net.

MR MACPHERSON: I know, and it exceeds it very greatly.

Q. Now, in 1899 I am suggesting this , and you might qcheck this during the noon hour too, if you will, Mr. Liddy---

A. You have given me quite a chore now already.

MR MACPHERSON: Well, this won't be very much. You had a surplus from townsites of $1,363,000.

THE CHAIRMAN: Are you starting a long question?

MR MACPHERSON: Well, perhaps we had better let it go.

---The Commission adjourned at 1:00 p.m. to meet again at 2:45 p.m.

Monday, March 6, 1950.

AFTERNOON SESSION

S. J. W. Liddy, recalled:

CROSS EXAMINATION BY MR MACPHERSON - RESUMED

THE WITNESS: Before you start again, Mr. MacPherson: at noon hour I had a little reflection on one of the questions Dr. Angus asked me in respect of Exhibit 190. Exhibit 190 deals with the comparable data showing digest of development 1885 to 1948. Dr. Angus' question I think was, was there any other income that the corporation had that was not reflected on this statement?

COMMISSIONER ANGUS: Yes.

THE WITNESS: And I think my answer was yes. That was an inadvertent and hurried answer, and I want to say that all income of the corporation is in one way or another reflected on this statement, but that the profit and loss -- the land surplus balance is not recorded---

THE CHAIRMAN: Q. The what?

A. The land surplus balance, which is merely a book figure -- no cash, merely a book figure -- is not shown on this statement as a column; but any money that comes to the corporation from the sale of land or from oil rights goes into the common treasury of the company and is reflected in one way or another throughout this statement.

Q. You mean either as capital investment or as income, Other Income?

A. Yes, or interest on the money, or any other manner, sir. It is all reflected in the results of this statement.

Q. We were talking, I think, this morning particularly about gas and oil income. That then is included in this

column of Other Income less Taxes?

A. Yes. Any cash that comes to the company and earns interest or is reinvested or starts to work in any way for us is reflected in here, is reflected in Exhibit 190.

MR MACPHERSON:Q.Well, Mr. Liddy, I am not sure that I follow you in that. Where, for instance, in the 1947 figures do you find the land surplus account?

A. No, as I say, the land surplus account, that is the net balance, is not in here.

Q. That is not in there at all?

A. No.

Q. Then where would you find the miscellaneous earnings in the land surplus account? Is that in here at all?

A. Well, it is in this statement throughout the years in this way---

THE CHAIRMAN: Q. It is what?

A. It is in this statement throughout the years in this way, that we get that money for royalties on oil or mineral rights, whatever it may be, and that comes into our treasury; it either earns interest for us in the bank or we reduce our fixed charges or we put it into some property investment. You see, the land surplus account is purely a bookkeeping figure; it is not money; it is only a book--keeping balance. It is on the liability side of our balance sheet, and when you go to the assets you have got to go to the left-hand side of the balance sheet, and you find it may be in cash, it may be in Government bonds, it may be in any kind of these investments.

COMMISSIONER ANGUS: Q. Then, Mr. Liddy, in Exhibit 190 there is no item that would show net non-rail property in a way that is comparable with net railway property, is there? No capital item of that character?

A. Not in this particular exhibit, no.

MR MACPHERSON: Q. Mr. Liddy, I asked you this morning, for instance, about miscellaneous earnings of the land surplus item?

A. Yes, Mr. MacPherson.

Q. And I told you that from your own report it totalled $1,812,495 in the year 1948?

A. Yes, sir.

Q. Now, where would that be reflected, where would that be in Exhibit 190?

A. Not that year; that money will come into our treasury as capital.

THE CHAIRMAN: Q. As capital?

A. As capital, yes.

Q. What you call the miscellaneous earnings, Mr. Liddy, come in as capital; that cannot be.

A. Comes in as capital.

Q. You capitalize it?

A. No; as cash, sir; it comes in as cash. Then it starts to earn either interest or we may pay off a bond---

Q. You use it as capital?

A. Yes. We may buy engines with it, and cars; and to that extent this whole Exhibit 190 reflects whatever earnings we got from land.

Q. Someplace or other; but these miscellaneous earnings are not to be found in the column of Other Income less Taxes?

A. Not for that year.

MR MACPHERSON: Q. The only thing, Mr. Liddy -- I think you will agree with me in this -- the only part of land income that is in Other Income less Taxes is the interest on the deferred agreements?

A. On land---

Q. Since 1940?

A. On land and townsites.

THE CHAIRMAN: Q. Lands and townsites?

A. Yes.

MR MACPHERSON: Lands and townsites.

THE WITNESS: And whatever benefit the surplus from lands has reacted to the benefit of the corporation.

MR MACPHERSON: Q. That goes into Other Income?

A. Well, having got the money -- supposing we sell a hundred acres of land at $10 an acre, a thousand dollars, we get that cash. We might buy a freight car with that; we might put it into a building of some kind.

THE CHAIRMAN: Q. Into what?

A. A building of some kind -- some asset.

Q. Are you talking now of railway assets?

A. Yes, sir, or any kind of assets.

MR MACPHERSON: Q. You might, Mr. Liddy, buy a freight car, you might buy a building for your station, or something of that kind?

A. Yes.

Q. Or you might buy with it something for your steamships, or you might buy something for your hotels?

A. Any corporation endeavour.

Q. Or you might buy some additional stock if you wanted to of Consolidated Smelters; I mean, you would apply it to any corporate use?

A. That is right.

THE CHAIRMAN: Not necessarily to a railway use.

MR MACPHERSON: Not necessarily rail; that is the point.

THE WITNESS: The other question, sir, was, could I tell what the gross sales of land and the net sales were.

MR MACPHERSON: Q. Yes?

A. And I find on looking up that question at noon that that is rather an involved question, Mr. MacPherson, and it is going to take a little while to do that. I would like just a little enlightenment as to exactly what figure you want. For example, supposing we bought some lands, supposing some lands came to us with an acquired railway line -- that is, we paid out perhaps a million dollars for some line, and with that line we got some lands; what terms would you want me to give to such an item as that?

Q. Well, Mr. Liddy, I think that on the figures as I gave them this morning there were 22,152,000 acres of land, according to Sir Edward Beatty, that had come to the Canadian Pacific from the Dominion, and according to the Duff Report there were 10,511,000 acres of land that had come from provincial governments. Now, what I would like to have is the gross amount realized from land?

A. No matter whether we purchased it or got it as a grant or whether we resold it again---

Q. I am not concerned with purchases; I am concerned with land grants.

A. Land grants only?

Q. Land grants only.

A. From either the Dominion or---

Q. Or the provinces.

A. Well, I will try and give you that. One of my difficulties -- I may not be able to solve it -- is that the proceeds, these net proceeds of land, were taken out of you might say the common pot of land, you know, irrespective of where the money came from. I may not be able to allocate that to whether it came from lands donated by the Dominion Government or whether it came from lands that we acquired ourselves and had resold.

Q. Why I mentioned it -- you referred to land obtained through subsidiaries. I am thinking, for instance, of the B. C. Southern, which had obtained a charter in the eighties somewhere, I think, and with that came the right to certain lands in British Columbia, but the road was not built until the Crows Nest line was built, so that that is when the land was obtained, and, while it was obtained by a subsidiary, it was obtained by the C.P.R. to all intents and purposes. You see my point?

A. Well, there are two classes of those. There are subsidiary companies that we built ourselves and got the land for, and there are other subsidiary companies which we purchased with the land.

MR MACPHERSON: Well, I would suggest this, Mr. Chairman, that probably it would save time if Mr. Liddy and myself might get together with Mr. Evans, and we would see if we could ascertain the facts.

THE WITNESS: Thank you very much, Mr. MacPherson.

MR MACPHERSON: Q. Now, I was starting to ask you a question when we adjourned in connection with townsites, and I referred to 1899. I want to refer to page 6 of the Annual Report of 1899, that reads as follows:

> "The net proceeds of townsite sales as shown in the balance sheet for 1898, namely, $1,363,224.69, have been transferred in reduction of the cost of the Company's property, and especially allotted to the ocean, lake and river steamships, and there has been applied in further reduction of the same item a portion of the profit resulting from the operation of the Pacific steamers during the year amounting to $155,000."

I suggest to you that this was the commencement of the steamship replacement reserve?

A. You may be right, Mr. MacPherson. I really do not know, but the steamship replacement reserve---

Q. Will you look at the balance sheet? I think that shows it, Mr. Liddy -- showing the net figure down there; I remember looking at it.

A. It is not shown here as part of the reserve.

Q. Well, this is 1899, Mr. Liddy. See the first item, ocean, lake and river steamships?

A. Yes.

Q. There is $1,518,224.69?

A. But it speaks of "less amount applied in reduction of cost as explained in report."

Q. Yes.

A. Now, I have a note here in front of me, Mr. MacPherson, which indicates that in the year 1934 we transferred that amount -- not quite that amount, but very close to that amount -- to steamship depreciation reserve. The full note reads in my notes here:

> "Townsite proceeds in 1899 applied in reduction of investment in ocean steamships and transferred in 1934 to steamship depreciation reserve."

So that I think probably there may not have been a steamship depreciation reserve at that time.

Q. What amount have you there? Is it $1,363,000?

A. That is right.

Q. That is the amount that I suggest. But, in any event, the point of my question is this, Mr. Liddy, that from the land surplus account as the proceeds of the sale of townsites, there was taken $1,363,000 used specifically in connection with a reserve for steamships?

A. Yes, it reduced the cost, and presumably less money was borrowed for steamships.

Q. That would be quite consistent with the policy as

you have stated it, that in connection with money that came in, it came into the common treasury, and would be applied as the corporation thought best in advancing any of the interests of the corporation?

A. Yes; that was a corporate transaction.

Q. And not necessarily in any sense was it to be earmarked for rail, in practice?

A. Well, there is another story to that, but I will say yes to your question.

Q. All right, then. Now, Mr. Liddy, the Annual Report of 1948, as all your Annual Reports, lists the other corporations in which the company is interested?

A. Yes, sir.

Q. And of these corporations a number are rail and a number are non-rail?

A. They are segregated, of course.

Q. Yes, they are segregated, but a number are rail and a number are non-rail?

A. That is right.

Q. A number of the rail are wholly-owned subsidiaries of the C.P.R.?

A. Yes.

Q. A number are controlled rail companies?

A. Well, they are all leased; all the railway companies are leased; they are controlled a hundred per cent.

Q. Controlled -- now I am thinking of stock, or apart from the leased lines altogether.

A. Yes, we have ownership.

Q. You have ownership?

A. That is right.

Q. There may be some held by the public, some of the stock held by the public, but you have control?

A. Well, take the Ontario and Quebec; it was one that

we owned very little of, as a matter of fact.

Q. I do not count the Ontario and Quebec as one of these, one of the controlled. Then there are some that you jointly control, such as the Toronto Terminals that we spoke of the other day?

A. That is right; and Northern Alberta.

Q. And Northern Alberta, that we had the other day as well. Then there are a number of leased railways in which you have no investment yourselves at all?

A. That is right.

Q. Either in common stock or in bonds?

A. That is right.

Q. Then there are a number of wholly-owned non-rail subsidiaries?

A. That is right.

Q. And then there are a number of non-rail companies controlled by the C.P.R.?

THE CHAIRMAN: What is that you said first? First you described some other non-rail?

MR MACPHERSON: There are a number of wholly-owned non-rail subsidiaries.

THE CHAIRMAN: For instance?

MR MACPHERSON: Canadian Express Company Limited. It is wholly owned; that is what I mean. Then there are a number of controlled non-rail companies, not subsidiaries, such as Consolidated Smelters, and then there are a number of other companies in which investments are held that are not listed.

THE CHAIRMAN: That are not listed?

MR MACPHERSON: That are not listed, the companies not listed. I think there is a basket item showing on other investments $5½ million.

THE WITNESS: You are thinking of the item of $4,731,000 at the bottom of page 28 in the 1948 Annual Report?

Q. Other investments, $4,731,795, yes, that is it.

A. Yes, but they are not anything to do with railway, of course.

Q. No, no; they have nothing to do, but they are investments other than rail investments?

A. That is right.

THE CHAIRMAN: Q. Is there any reason why they are not set out?

A. There are many details.

Q. Too many of them?

A. A lot of small investments.

MR EVANS: There was a reason for some that was gone into before the Board of Transport Commissioners. A very considerable number of the investments included in those basket items were supplied in confidence to counsel and to the Board, and there were others that we asked them not to ask us to divulge, because they might, without being of any value---

THE CHAIRMAN: Trade secrets?

MR EVANS: ---have some difficulty in them. But I do not think my friend Mr. MacPherson is asking for that detail at all.

MR MACPHERSON: I am not pressing for the detail, only in passing commenting on the fact that that investment does represent an investment in other non-rail enterprises of some kind or other, and I am not asking particulars at the moment of them.

THE CHAIRMAN: You do not know whether this investment yields anything or not?

MR EVANS: Well, if it does, sir, it is all in the

Other Income.

MR MACPHERSON: It is all in Other Income.

THE CHAIRMAN: Oh, it is in Other Income?

MR MACPHERSON: Yes. Anything that comes from it, rail does not benefit by.

MR EVANS: Well, we will argue that, Mr. MacPherson.

MR MACPHERSON: We are coming to the leaning again.

THE CHAIRMAN: Mr. MacPherson is taking a short cut.

MR EVANS: The only thing that enables the Canadian P cific Railway to pay a dividend today is this Other Income.

MR MACPHERSON: Well, that of course will be in due course, this leaning argument to which Mr. Liddy referred this morning, which is an argument, and which in due course we will discuss.

Q. Now, I suggest, Mr. Liddy, taking these companies -- and I ask you to correct these figures if I am wrong in them -- according to your Annual Report the Canadian Pacific owns 43 wholly-owned rail subsidiaries; that there are 16 controlled rail companies in addition---

THE CHAIRMAN: Are all these in Canada?

MR MACPHERSON: No, not all in Canada, but the majority are in Canada, my lord. I have a list of them; they are listed in the report, as a matter of fact.

Q. That there are three jointly controlled rail companies; that there are fourteen leased railways -- that is, fourteen railways in which the C.P.R. has no investment by way of ownership of common stock or ownership of bonds, but on which it has leases; that there are thirteen wholly-owned non-rail subsidiaries; that there are

ten controlled non-rail companies; and that it is a fact that a number of these companies, which, as I total them, total 99, own other companies?

A. Outright, you mean?

Q. Outright, yes.

A. You are speaking of this?

Q. Well, I am speaking of this whole list. There are some of these companies that actually own outright other companies?

MR O'DONNELL: You mean the list in the Annual Report.

MR MACPHERSON: Yes; for the record, the list is listed in the Annual Report at pages 22 on.

Q. My question now to you, Mr. Liddy, is that some of these companies that are owned wholly or controlled, in turn own other companies?

THE CHAIRMAN: They would be grandchildren of the C.P.R.

MR MACPHERSON: Grandchildren, yes, my lord.

MR EVANS: They might be stepchildren.

MR MACPHERSON: Well, some of them might be stepchildren, and some of them might be illegitimate children, perhaps. But, in any event---

THE CHAIRMAN: They all have to be taken into account.

MR MACPHERSON: Yes, they all have to be taken into account; that is my position.

Q. So that, Mr. Liddy, the position is that as against 1885, when this balance sheet was drawn to which we referred this morning, there was the one company then, wasn't there?

A. Well, there were very few, anyway.

Q. Very few; and it has grown, the company has grown, and its interests have become very much diversified?

A. Yes. It is rather a tribute to the company that---

Q. Anything that I say is not detracting in any sense from the accomplishment. I am simply dealing with the fact, Mr. Liddy, and then seeing how, in endeavouring to solve our transportation problem as to rail, it applies. The fact is that today your interests are many as a company, as a corporation, and they are varied?

A. Yes, sir.

Q. You are interested in rail in a great way, as you were in 1885?

A. Yes, sir.

Q. You are interested in hotels today?

A. Yes, sir.

Q. And steamships?

A. Yes, sir.

Q. Restaurants?

A. Yes, sir.

Q. Communications?

A. Yes, sir.

Q. Commercial paper?

A. We have made the Canadian Pacific known in all corners of the earth.

Q. Yes; and Canada to a degree as well?

A. I hope so.

Q. I am giving you credit for all this, and I am not detracting from it.

A. I know you wouldn't.

Q. But I am coming back to our transportation problem. Now, some other interests: elevators?

A. Yes; the elevators are in rail, of course.

Q. Stockyards?

A. Yes, we have an interest in the Alberta Stockyards.

Q. Packing plants?

A. Well, not quite as such, I don't think. We have a slaughtering house in Montreal, East End Abbatoirs.

Q. Air lines?

A. Yes. They are losing money just at the present time.

Q. Trucking companies?

A. Yes, sir.

Q. Are they losing money?

A. I think they are.

Q. Buses?

A. Yes, I think we have some highway buses.

Q. Ferries?

A. We have Saint John to Digby. I don't know whether you would call that a ferry or not.

Q. Tugs?

A. Yes -- B.C. Coast Service.

Q. Trust company?

A. Yes.

Q. Mining companies?

A. Yes.

Q. And real estate?

A. The way you put it, there doesn't seem to be anything left in Canada.

Q. You cover the waterfront.

THE CHAIRMAN: Q. I notice you refer to this Nova Scotia passageway as a ferry; how do you refer to the Vancouver-Victoria? Is that a steamship company?

A. That is a steamship company; but Mr. MacPherson was asking me if we had ferries. I had a little difficulty just recalling where there was a ferry, unless he was thinking of this Saint John to Digby, but we describe it as a steamship.

Q. You describe it as a steamship company?

A. That is right.

Q. It is a company, is it?

A. No, no, not a company.

Q. Just run your own ships across?

A. That is right.

Q. Use them as ferries; you use your own ships, you say, as ferries?

A. It could be called a ferry service from Saint John to Digby, but it comes---

Q. It is part of your railway service, is it?

A. No, it is not in our railway accounts.

Q. It is not?

(Page 17210 follows)

A. No, the operations of that line, because I presume it is salt water, I am not sure. They are controlled by - is it the Maritime Commission? They don't report to the Board of Transport.

THE CHAIRMAN: There is such a body.

MR. MacPHERSON: Q. Now, Mr. Liddy, when this money was put originally into each of these ventures, would it be fair to say, that the original intention of the investors was to further the railway end of it?

A. I would not say so, Mr. MacPherson. A lot of these things had a complementary effect on the railway. As a matter of fact, it would be very difficult to conceive of any investment made in Canada that would not help the railways, whether you put it in the pulp mill or what have you, but I think these investments were made really to fullfil somewhat the contract, and that is to maintain this railway and operate it efficiently forever.

Q. What I am coming to this is this. We are interested in rail. I am interested particularly in rail, and in transportation rates, as you know.

A. Yes, sir.

Q. Now you have made it clear in your evidence, I think, that there has developed a situation where you have to look at it from the standpoint of the Treasury, the corporation and the railways.

THE CHAIRMAN: Would you please repeat that?

MR. MacPHERSON: I have said, my lord, that Mr. Liddy has made it clear in his evidence, I think, here, that the corporation has grown to such an extent in the variety of its interests, that he must look at it, representing the Treasury, from the standpoint of the corporation and from

the standpoint of rail as such.

A. That has been our submission, yes, that when you come to test rail rates which are concerned, that you look at the rail investment and you look at the rail returns, and you decide whether they are reasonable or not reasonable and what should be done about it.

Q. I have gone into this and I don't want to repeat it, and I know you don't, but it is the fact that the road was originally built because of the necessity of joining British Columbia to the rest of Canada and for the purpose of developing all that western country.

A. And we were given a charter at that time, and that charter was broad I think. It had broad rights and whatever that charter contained and what has been supplemented with it, we have gone into, yes, sir.

COMMISSIONER INNIS: Has it been amended to increase the powers of the Company?

A. Yes, but I think proabably counsel ought to answer that question.

MR. EVANS: There have been a very large number of amendments to our Act, and it is a book of some thickness. Then too the charter was of rather a special kind.

THE CHAIRMAN: I think your point is, there is no question at all of your powers.

MR. EVANS: No, no, they are very broad.

COMMISSIONER INNIS: They are not powers in the charter; there is power to amend the charter.

MR. EVANS: There are very broad powers in the charter because of the kind of charter we got. We got a Royal Charter which is a little different than most companies have. Then we have special powers in other

amending statutes, steamships and hotels, telegraphs and so on.

THE CHAIRMAN: Mr. MacPherson, may I ask you now. I understand the line on which you are proceeding, but have you also in view something positive in the way of establishing a basis for rate structure, that you intend to bring out later?

MR. MacPHERSON: My lord, the question - -

THE CHAIRMAN: I don't want to know what it is, but whether you intend - -

MR. MacPHERSON: Well, the question of rate base has been raised, and I am bringing out that which I wish to argue from in the matter of any discussion of rate base.

THE CHAIRMAN: That is, you have before you what the Company proposes, and you are criticizing it, and analyzing it.

MR. MacPHERSON: That is right.

THE CHAIRMAN: Well, I would just like to know whether you yourself intend to propose any alternative to us as a rate basis. I don't want to know what it is, but I want to know if there is such a thing.

MR. MacPHERSON: I shall be discussing that, certainly, at some length in argument.

THE CHAIRMAN: All right, because otherwise it would be interminable wouldn't it?,

MR. MacPHERSON: Yes.

THE CHAIRMAN: I mean, if the Board, every time an application was made, had to go all over each time these various things that we are going over now. I am wondering whether we cannot put an end to all that and arrive at some basis.

MR. MacPHERSON: My lord, I think the position or the approach of all of us, railways and provinces alike to this problem at this time before this Commission, should be one of endeavouring to arrive at something that is going to be beneficial in the future. Our friends and ourselves have fought very strenuously before the Board of Transport Commissioners in the last two or three years on this question of rate base; our friends taking the position as to what they had established or what they thought they had established by way of rate basis, and we on the other hand asserting with equal vehemence that they had not established it. But sooner or later the Board has been proceeding on the basis of requirements in connection with railways; and sooner or later the question of rate base, in fairness to everybody, will have to be determined. It is what will constitute that and how it is to be established and what is in this, our friends arguing that what they suggest here as $1,021,000,000 is reasonable, and we saying, no, it is not.

MR. EVANS: But I would like to make it clear, that we are not asking the Board or this Commission to establish that in this proceeding.

MR. MacPHERSON: I know.

MR. EVANS: And really I am most anxious to avoid objecting to the line of cross-examination, not because I have any fear of what may come out of it, but because I do feel that this is a matter that must inevitably come before the Board in a subsequent proceeding. So far as it may be purely informative for the Commission, I have no objection; but with your lordship I rather suggest that there must be some end to it, because I have no doubt that if these questions were gone into throughout the years, as Mr. MacPherson has gone into the first two or three years of the

Company's history, we might be here for several months on that one question alone.

THE CHAIRMAN: I am not finding fault with Mr. MacPherson.

MR. MacPHERSON: My lord, I have gone into the question of the first two or three years of the Company's history for various reasons, which I will try to make clear to my friend and to the Commission later.

THE CHAIRMAN: Now, go on, Mr. MacPherson.

MR. MacPHERSON: Q. I am coming now to this point, Mr. Liddy, that at the time the road was built, the Company had a monopoly of freight and passenger traffic.

A. In Western Canada?

Q. In Western Canada.

A. If you can call a monopoly something that is very small, yes.

Q. Well, so far as transportation is concerned, in the past few years, there have been quite violent changes, have there not?

A. In the traffic volume?

Q. Not in traffic volume, in means and methods of transportation.

A. Well, there is a growth or trend of this and that, yes.

Q. And is that as far as you would like to go, for instance with trucks?

A. Well, really, you have got an accountant here, Mr. MacPherson. I don't know that I can help you with trucks.

Q. Well, I am pointing this out to you.You are an accountant and you are the Assistant Comptroller?

A. Yes, sir.

Q. And you are the man who has to do with the treasury, and they should be, and I think you will agree, must be, the most realistic men in dealing with problems of a corporation.

A. We tell the financial man how much money he should have in the treasury too.

Q. That is what I thought.

A. He keeps it though.

Q. Now, I am speaking to you in that position, as the accountant, and saying to you that there have developed since 1885 and particularly in the last twenty years, new forms of transportation, passenger and freight, in the form of airplanes and trucks and buses. That has been a development in the past twenty years, seriously?

A. Yes, I think that is a correct statement.

Q. And the company has itself gone into these various lines of endeavour, hasn't it?

A. Yes, to see what is in them.

Q. To see what is in them?

A. Yes.

Q. You are in the air transportation business today?

A. Yes, to see whether or not there is going to be any future in that or not.

Q. And you are in the trucking business today?

A. For the same reason.

THE CHAIRMAN:

Q. You are still in the experimental stage with all those?

A. I take it - that is the way I would appraise it.

MR. MacPHERSON: In both of these?

A. But it is out of my ordinary element.

Q. Mr. Liddy, what I am coming to is this. You after all are looking after the treasury, I think that is your

standpoint.

A. I think you understand exactly how I stand.

Q. Yes, I mean, you are giving evidence on behalf of the Comptroller in that regard?

A. That is right.

Q. And my point is this. The development of trucking, for instance, truck competition has been a very serious development insofar as the railways are concerned in the past twenty years?

A. Yes, it is,particularly the upper strata of our highway traffic, it is very serious.

Q. Now from the standpoint of the treasury again, I am asking this, and I think probably you were coming to the very meat of the discussion of the transportation problem. Has it been considered by the treasury, whether it is wise to try to get all the traffic, or whether , on the other hand, the Company might as well accept the situation that trucking is here, and is part of the transportation picture today.

A. Well, I really must apologize to the Commission for not being more intelligent on that question than perhaps you attribute to me; but, as I say, we have made certain investments in trucking companies, trucking services, airlines, and so on, to see what is in it. I think our main attempt is to coordinate trucking services with the railway, all on the theory that the railway traffic is bound to be the cheapest form of transportation for a long distance. I am now talking of freight.

Q. Yes, and that is exactly what I am coming to, the long distance, because we are a long distance here from the people I represent.

A. Now, if it is possible to co-ordinate the trucking services with that and avoid building branch lines and avoid perhaps stopping trains at every little station along the right of way, we want to see what is in that business, and to see whether or not we can keep railway transportation at a minimum; because our whole life blood depends upon this railway plant that we have, and we are doing everything we can to protect that railway plant, to protect its future, and to build it up along sound economic lines.

Q. Mr. Liddy, I am not blaming you at the moment for being in the trucking business, nor being in the airplane business. I am simply asking this question, whether through the treasury, you have considered that the company may be following a mirage in trying to get all the traffic; whether there has not been that development in transportation where you should abandon perhaps part of the field to the trucks and carry on with that long haul traffic that you mentioned yourself, and which concerns us.

MR. EVANS: Surely you ought to be fair to Mr. Liddy. How can Mr. Liddy say all the considerations that have gone into the consideration by the Board of Directors as to why they went into a particular line of endeavour?

THE CHAIRMAN: I just wonder whether you are adressing your questions to the proper witness, Mr. MacPherson.

MR. MacPHERSON: Well, excepting---

THE CHAIRMAN: Mr. Liddy is here for a specific purpose.

MR. MacPHERSON: But this is after all perhaps the very meat of the problem we have.

THE CHAIRMAN: Yes, I know. Is there anything you can suggest about that, Mr. Evans?

MR. EVANS: Well, we had here, Mr. Walker, and Mr. Crump, who are both members of the Board of Directors and were on the Executive Committee, and they certainly would, I would have thought, been better able to answer this kind of question than Mr. Liddy. We shall have Mr. Newman, and I think Mr. Newman might have a considerable amount of knowledge from the Research Department angle. I would certainly expect that the kind of question Mr. MacPherson puts to Mr. Liddy is not the kind of question that could be answered by him.

THE CHAIRMAN: Then will you undertake that Mr. Newman will be in a position to answer Mr. MacPherson?

MR. EVANS: If I get the question.

THE CHAIRMAN: Is that all right, Mr. MacPherson?

MR. MacPHERSON: Yes, my lord, I might just say, that I was unfortunately ill at the time that Mr. Walker and Mr. Crump were on the stand here, or I would have asked the same question of them, that I am now addressing to Mr. Liddy.

THE CHAIRMAN: Well, Mr. Evans tells us that Mr. Newman will be qualified to answer.

MR. MacPHERSON: That is quite satisfactory to me, my lord. All I wish to be done in this connection is to ascertain what I think the Commission must give consideration to, whether there must not be in some measure an integration of trucks and rail, and whether or not under the circumstances and in the evidence that is before the Commission the Railway Company as such may be following a mirage, as I have put it, in trying to get all the traffic of all kinds, having regard to the fact that we are now in a different age, so to speak, and not thinking

flippantly of the matter.

THE CHAIRMAN: You mean, getting all the traffic of all kinds?

MR. MacPHERSON: Of all kinds.

THE CHAIRMAN: For the railway?

MR. MacPHERSON: For the railway.

THE CHAIRMAN: Not for its other - -

MR. MacPHERSON: No, for the railway.

MR. EVANS: That kind of question, I would say, is impossible for anyone to answer. He postulates two things, you see: first, that we are trying to get all the traffic at any price, and, second, that there is a mirage there. Now, those are all postulates to this, and to answer the questions likewise, you have to accept the postulates or else you have to say you cannot answer them. That kind of question I would object to being made to anybody.

MR. MacPHERSON: Well, if it is not a proper question - -

THE CHAIRMAN: Always remembering that we are not in court, you see.

MR. EVANS: No, sir.

THE CHAIRMAN: If we can get any useful information, even by way of mirage, I think we ought to have it.

MR. EVANS: We are quite happy to do it, and, quite obviously (Iwant to say this) we are not trying to get all the traffic at any price.

THE CHAIRMAN: No, you have always told us that. You only want traffic that compensates you to some degree.

MR. EVANS: Quite so, and Mr. Liddy has given an answer that I think satisfies Mr. MacPherson. He says

we are trying to see what we can do with these new instruments of transportation. Quite obviously that is about all anybody could tell him.

MR. MacPHERSON: Well, my lord, I will not pursue it further, but I do think - -

THE CHAIRMAN: I am not stopping you.

MR. MacPHERSON: But I think it is a matter of great concern to all of us. As I say, I don't want to be unfair to the railway. The railway started out, as Mr. Liddy has stated and as we know, with a complete monopoly of the traffic along the line for many years.

(Page 17220 follows)

THE CHAIRMAN: In western Canada?

MR. MACPHERSON: In western Canada.

Q. Now the situation has changed in transportation in the past few years. The company has extended itself in all these lines; for good or ill, they have extended themselves. They have become a regular transportation drugstore, so to speak. They handle everything.

MR. EVANS: If we didn't, you would be the first to criticize.

MR. MACPHERSON: I am not criticizing at the moment.

THE CHAIRMAN: You mean outside Canada as well as inside?

MR. MACPHERSON: Yes, my lord. What I am trying to do at the moment is to look at the situation in a manner that will result in some solution of our transportation problem, and in a way that will enable the railways to perform the function that I think it was intended they should perform, that is the long haul function, which they must perform so far as our country is concerned.

THE CHAIRMAN: Well now, so far as you are concerned you can continue to ask Mr. Liddy his opinion on this point, but we know now that Mr. Newman is coming.

MR. MACPHERSON: Mr. Newman is coming; I will deal further with Mr. Newman. What I have said in this connection is not necessarily being said in criticism of the company. I have been asking Mr. Liddy questions from the standpoint of the treasury, whether or not consideration has been given to those studies on the part of the corporation that would indicate that

the integration of these different forms of transportation might mean the abandonment of certain fields in these new forms of transportation.

MR. EVANS: You understand Mr. Liddy is not in the treasury?

MR. MACPHERSON: He speaks for the common pot.

MR. EVANS: He speaks for the accounting department.

MR. MACPHERSON: The accounting department.

Q. Mr. Liddy I might ask you a question about trucking. Exhibit 75 shows you have taken over 2700 miles of routes in western Canada?

A. There was an Exhibit put in by Mr. Crump, was there?

Q. No, I think Mr. Frawley put it in; Mr. Crump did not.

THE CHAIRMAN: 2700 miles?

MR. MACPHERSON: 2700.

THE CHAIRMAN: The C.P.R.?

MR. MACPHERSON: Yes.

THE CHAIRMAN: In Alberta?

MR. MACPHERSON: And Saskatchewan.

THE WITNESS: And Manitoba.

MR. MACPHERSON: And British Columbia too. The Dench and Company head office is in Calgary; it is one of these companies. The O.K. Valley Freight Lines Limited, Penticton; and the Canadian Pacific Transport Company, Limited, head office in Montreal, I believe.

THE WITNESS: Brandon?

MR. MACPHERSON: Q. Well there is an office in Brandon but I think the head office is in Montreal.

MR. EVANS: Of the Canadian Pacific Transport Limited, yes.

MR. MACPHERSON: Q. There is apparently a Brandon division and a Shaunavon division?

A. That is what the Exhibit shows.

Q. You know these companies are owned by the railway?

A. I know we have companies. I don't know whether all these routes are ours or not. I haven't checked them, Mr. MacPherson, but we could undertake to check them, if they haven't been checked.

Q. It is already in as an Exhibit.

MR. COVERT: I think, Mr. Chairman, as a matter of fact the railway gave us complete information on that; that is my recollection.

MR. EVANS: I know we had asked for it, and I thought we had given it.

MR. MACPHERSON: I think it corresponds with it, does it not, Mr. Covert?

MR. COVERT: I think it was given to us in much greater detail than is shown in that Exhibit.

MR. MACPHERSON: In greater detail than this?

MR. COVERT: Yes.

MR. MACPHERSON: Q. I want to point out in connection with trucking that Dench and Company operates from Lethbridge to Regina, a distance of 438 miles. . .

A. They don't go into British Columbia at all sir?

Q. No.

MR. SINCLAIR: Yes, they do.

MR. MACPHERSON: Yes, Cranbrook to Kimberley, and Lethbridge --

THE CHAIRMAN: Do they operate in eastern Canada?

MR. MACPHERSON: No, they do not.

Q. What intrigues me about the Dench Company is that it operates from Lethbridge to Regina, a distance of 438 miles, and the Canadian Pacific Transport Company operates from Regina to Shaunavon; from Eastend, Shaunavon, Gull Lake and Regina. That would mean the same company would operate -- the two trucking companies would operate from Gull Lake to Regina, a distance of 200 miles --?

MR. SINCLAIR: Who says they run that way?

MR. MACPHERSON: Well, don't they?

MR. SINCLAIR: Does that show that they do?

MR. MACPHERSON: No; I am asking Mr. Liddy.

THE CHAIRMAN: You say they parallel each other from Gull Lake?

MR. MACPHERSON: There is only one highway there.

THE CHAIRMAN: Both companies were acquired by the Canadian Pacific.

MR. MACPHERSON: Both were acquired by the Canadian Pacific.

THE CHAIRMAN: One is Dench, and what is the other?

MR. MACPHERSON: The Canadian Pacific Transport.

MR. EVANS: Dench came as a subsidiary of the Canadian Pacific Transport Company. I assume what my friend is trying to infer is that because we have said we own some hundreds of miles of routes, that we are trucking from one end of them to the other in competition with the railways. I assume that is what he is trying to infer.

MR. MACPHERSON: What I am merely pointing out, my lord, is this, that as far as trucking is concerned we now have an instance of one company being wholly owned by another. The Canadian Pacific Transport Company Limited wholly owns Dench Company.

MR. EVANS: We admit that. What is the point?

MR. MACPHERSON: I will come to the point.

MR. EVANS: It takes you a long time to come to it.

MR. MACPHERSON: Oh, not so long.

The position, is so far as the Canadian Pacific is concerned it has set up its own trucking lines, and it should have learned something from them. I have been trying to find out from Mr. Liddy, and financially he has indicated that he believes they are losing money.

MR. EVANS: The railway is losing money too.

MR. MACPHERSON: Q. Then, if they are both losing money, has any consideration been given, Mr. Liddy, that you know of -- if you don't know, just say so -- as to the desirability of maintaining either the one or the other insofar as any type of traffic is concerned.

A. I do know that consideration has been given and is continuing to be given to that problem, and I can quite assure you, Mr. MacPherson, that when the decision is reached that we should be in the trucking or out of the trucking, that we will take the decision, but the time is not yet opportune to say whether or not we should or should not be in that line of business.

Q. So far as the trucking is concerned naturally it would deal with what we call your l.c.l. traffic, is that not right?

A. Well, you probably know more about this trucking business than I do, but I would say it was largely l.c.l.; it would be very exceptional if there was large quantities of it.

Q. Well, on the question of petroleum, I will put this to you to indicate the problem as it affects the people of the province that I come from. On the question of petroleum products, I brought out in Mr. Jefferson's evidence that under agreed charge the cost of moving petroleum products from Sarnia would be 9½ cents for fifty miles, from Calgary 12 cents, from Regina 26 cents, or Portage or any of these other towns 26 cents. The man who pays the freight has no control over agreed charges at all.

A. He enters into a contract.

Q. Not a man who uses the petroleum products?

A. Well, really Mr. MacPherson, I couldn't help you on that kind of problem whatsoever, because my whole training and my whole experience has not been along these traffic lines. You may as well ask a newspaper reporter these questions.

Q. I am asking you from the standpoint of dollars and I am also asking you whether you have, for instance, sat down to discuss these problems with Mr. Jefferson?

A. I have given you my answer to that, that we are continually studying these things. We have monthly reports of the operations of these various trucking firms, and we are certainly looking at the problem as to whether or not the Canadian Pacific is wise or is not wise to be in that kind of business.

Q. I just want to go back for a minute. I have a note here in connection with a matter that I discussed this morning, in connection with land surplus. Actually

Exhibit 190, apart from the matters that I referred to this morning, does not show all the dividends that were paid to the shareholders over these years from 1885 to 1948?

A. Except for that one exception, they cover this --

Q. Out of Land Surplus, was there not another payment of one per cent paid for a period of four years, 1907, 1908, 1909, and 1910?

THE CHAIRMAN: That is in addition to those shown here?

MR. MACPHERSON: In addition to those shown here.

COMMISSIONER INNIS: Not included in the six per cent?

MR. MACPHERSON: That is right.

THE CHAIRMAN: The question is, why were not these items included in the six per cent?

MR. MACPHERSON: Yes.

THE CHAIRMAN: Or in that column?

MR. MACPHERSON: Q. If you look at --?

A. The Annual Report, Mr. Chairman, for the company, for the year ended June 30, 1907 sets out the six per cent dividend for that year, and makes a note at the bottom of it which reads:

> "In addition to the above dividend on ordinary stock one per cent was declared from interest on land funds."

It would appear that there must have been some interest accrued on land funds, and they paid one per cent dividend from that source.

Q. Now, Mr. Liddy, I suggest to you that the same is true in 1908, 1909, and 1910, and that for these four years there was a one per cent payment made to the ordinary shareholders, which does not appear

in that column at all.

THE CHAIRMAN: Out of land funds?

MR. MACPHERSON: Yes, out of land funds.

THE WITNESS: Well, it has been pointed out to me that in 1911 these dividends were charged to the Land Surplus Account, which is not an account that is shown on this Exhibit 190.

MR. MACPHERSON: Q. What I am getting at, Mr. Liddy, is that this Exhibit 190 presumes to indicate to the Commission what was received by the ordinary shareholder by way of remuneration through the company by virtue of his being a holder of stock in the company, and I am pointing out here now, as I did this morning, that there are errors and omissions, and this is one.

A. I don't know whether it is an error. The Land Account is not in there, and as I say, these amounts were charged to the Land Account; but I will go this far with you, Mr. MacPherson, that the statement would perhaps have been much clearer if we had added innumerable notes to it. The only purpose I had in submitting that statement was to give a broad and quick bird's eye view of railway operations essentially, and of some of the corporate results in respect to those items set out.

Q. I am suggesting to you, Mr. Liddy, that in 1907 in addition to the amount set out for that year as paid to the ordinary shareholders, namely, $7,300,800 odd, there was an additional sum of $1,216,800?

A. Yes; and I am suggesting to you, sir, that you will find that that is transferred to Land Surplus in the year 1911.

Q. I don't care where it was transferred from, Mr. Liddy. All I am pointing out is that that column

does not truly reflect what was received by the ordinary shareholder.

A. That column reflects everything that was received by the ordinary shareholder, except to the extent that the Land Surplus is not in here, and I think if I were making this statement out again I would put it in, because it would be more informative.

Q. I know it is not intended to be misleading?

A. We would have no purpose --

Q. I am not suggesting that for a moment. All I am suggesting is that there is, in these first two years of 1907 and 1908, omitted as to what was paid to the ordinary shareholders, a sum in each year of $1,216,000, and in the last two years, 1909 and 1910, the sum of $1,500,000 odd.

A. When we made up Exhibit 49-49 in the Rates Case, we had a note covering that very point, and if I was making up this Exhibit --

THE CHAIRMAN: Q. A note on the Exhibit?

A. Yes. And if I was making up this Exhibit again I think I would put a note on here. The Exhibit goes back to 1885, and it would take more notes than you would have statement when you got through with it, and still they would not answer ten per cent of the questions that would arise.

MR. MACPHERSON: Q. In any event, taking those four years and adding one per cent out of land in addition to what is set out there in dividends declared ordinary, to give a total over the years, you would have to add an additional $5,300,000.

A. That is right; and I am glad to know that. It indicates that the company received --

Q. It is $5,433,600?

A. -- that the company had a longer period of reasonable dividends than I had understood before.

THE CHAIRMAN: Are those the only years, Mr. MacPherson?

MR. MACPHERSON: These four years, my lord.

THE CHAIRMAN: We will take recess.

---Recess.

(Page 17232 follows)

---Upon resuming:

MR MACPHERSON: Q. Mr. Liddy, just on the matter of ordinary capital stock -- I am looking at Statement A6 to Exhibit 196, 49-49 -- there were three separate periods in the history of the company when there were sales of stock made; I suggest to you from 1881 to 1885 there was $65 million?

A. Yes, sir.

Q. And then from 1903 to 1915 there was $195 million?

A. Yes, sir.

Q. And then in 1928 to 1930 there was almost $75 million?

A. That is right -- exactly $75 million, I guess.

Q. Exactly $75 million, that is right. Now, Mr. Evans raised the question this morning about the discounts in the early years. There is a column on that page A6 of 49-49 which shows the discounts in the early years and then the premiums in the latter years, and it ended up with a premium, net premium, of $78,475,000?

A. Yes.

Q. Net, yes.

A. That is on the ordinary stock.

Q. That is on the ordinary stock. That is to say---

COMMISSIONER INNIS: What was the total premiums and total deficits? Is that there?

MR MACPHERSON: The total deficits, the total discounts---

COMMISSIONER INNIS: Discounts, I mean.

MR MACPHERSON: They are all here. They are not totalled. About $35 million were the discounts, and then, starting, there were no heavy premiums, as the exhibit shows, until the year 1914, on the sale of stock.

Q. There was a premium of $45 million that year, Mr.

Liddy?

A. Yes, on an issue of $60 million.

Q. On an issue of $60 million there was a premium of $45 million?

A. That is right.

Q. There had been a premium the year before, in 1914, of $2.8 million on an issue of $2 million. Then in the latter sales, in 1928, '29 and '30, there was a premium of $17,623,000, $24,854,000 and $3,416,000, on sales in those three years?

A. That is when the prices of our stock were selling between 150---

Q. And 170?

A. That is right.

Q. And I think, in fairness to the company, much of these sales were made to the employees at that time?

A. There were some made to employees, yes.

Q. Wasn't there a special arrangement by which in those three years employees bought stock?

A. Yes, there was a special arrangement, but I could not say whether much of that -- I doubt very much if you could say much.

Q. You would not say much?

A. But some of it certainly was, because I bought some myself.

COMMISSIONER INNIS: You mean employees did not pay the premium?

MR MACPHERSON: Oh, yes, they paid the premium.

Q. They paid the premium, as I understand it, they paid the premium and were given the opportunity, as I understand it, Mr. Liddy, of paying it in instalments over a period of years?

A. That is for the employees only.

Q. Yes.

COMMISSIONER ANGUS: Q. When there was a premium, the premium was in excess over the par value, wasn't it?

A. Oh, yes, sir.

Q. And quite consistent with there being an issue of stock somewhat below its market value; I mean, the right to subscribe to the stock might still be valuable?

A. Oh, yes; yes, that is right.

MR MACPHERSON: Q. The sale was, the issue price, as statement A6 shows, 150, 150 to 170, and 170; that was before the shares were split, Mr. Liddy?

A. Yes.

Q. And that would be on the basis of 100 par?

A. That is right. They are now split four to one.

Q. Now, Mr. Liddy, I referred this morning to the question of donations.

In that connection, there are certain cases that I want to refer to the Board, dealing with the position of donations in the matter of rate base. For the information of the Board, I wanted to read these. One is a decision---

THE CHAIRMAN: Is there any particular part of the Canadian Pacific brief to which you could relate these cases?

MR MACPHERSON: No, I do not know that there is, excepting that the Canadian Pacific have asserted and can argue, and there is an argument, rightly or wrongly---

THE CHAIRMAN: Just for my own convenience in jotting them down.

MR MACPHERSON: No, they are not referred to in any part of the brief. The point is as to their being entitled to a return on donations, and there is a Canadian decision that I wish to refer to. It is the British Columbia Electric Company Limited, a decision of the British Columbia Public

Utilities Commission, and it is to be found in 53 Public Utilities Reports at page 455.

THE CHAIRMAN: Is that a British Columbia report?

MR MACPHERSON: No; it is Public Utilities Reports. I do not think it is reported---

THE CHAIRMAN: It is Canadian, is it?

MR MACPHERSON: No; this is American.

MR O'DONNELL: A Canadian case.

MR MACPHERSON: A Canadian case. This is the New Series.

THE CHAIRMAN: In what year was the case?

MR MACPHERSON: 1944.

THE CHAIRMAN: And what page?

MR MACPHERSON: Page 455.

THE CHAIRMAN: What is the gist of that decision?

MR MACPHERSON: I will just read this one short paragraph from page 455:

"Donations, customers' deposits, monies on hand for payment of taxes, etc., require special treatment. These funds are used by the utility in construction or replacement of plant or as working capital. They do not represent a decrease in property value or in the amount of working capital as defined in this judgment. But as the shareholders do not provide these funds they are not entitled to a return on them. One method of treatment is to deduct such funds from the rate base but in this case this is impractical. These funds, with the exception of customers' deposits, are not related to the units of service, and cannot be segregated except on some purely arbitrary basis.

The method used is to treat these funds as non-interest-bearing monies and no return is allowed on them in the calculation of the rate of return. The ultimate

result to the consumers is the same. Though the funds in question are not deducted from the rate base, they have a compensating effect in reducing the rate of return on that rate base."

Now, that is the British Columbia case.

In the digest of these reports there are two other cases to which I want to refer. One is a decision of the Pennsylvania Public Utility Commission, which is reported in 40 Public Utilities Reports, New Series, page 161.

THE CHAIRMAN: New Series -- that is another series?

MR MACPHERSON: It is the same series as the other one.

THE CHAIRMAN: What year?

MR MACPHERSON: The year is 1941. Under the heading "Donated Capital" this says:

"On December 31, 1939, the donated capital received by respondent from consumers for the construction and installation of distribution lines and other property amounted to $218,368. In the temporary order of November 30, 1937, . . . we stated that 'To allow such capital as a part of a rate base would impose upon consumers the burden of supplying the capital in the first instance, then penalize them in the future by requiring them to pay rates high enough to provide a return on the value of property first constructed at their own expense and to be replaced at their expense.' Although we made no reduction from the rate base in the temporary order, we now reiterate the foregoing position and in our determination of fair value will give due recognition to the $218,368 contributed by the consumers. There is ample legal sup-

port in other cases decided by us and by other jurisdictions for such action."

And there is one other case which is a later case still, a decision of the District of Columbia Public Utilities Commission, which will be found in 65 Public Utilities Reports at page 94. This has to do---

THE CHAIRMAN: What is the name of that case?

MR MACPHERSON: It is Re Uniform Classification of Accounts for Telephone Companies. The section dealing with this particular aspect of the question says:

"Statement, in connection with accounting order, that contributed plant or plant paid for by cash contributed by subscribers or customers of utilities although belonging to the utility, should not be included in the rate base."

THE CHAIRMAN: What is the year of that?

MR MACPHERSON: 1946, my lord.

Q. Now, Mr. Liddy, you filed another exhibit here to which I want to refer, and that was---

MR EVANS: Mr. MacPherson, before you go on: Are all those cases cases of customers' deposits?

MR MACPHERSON: No, they are not all customers' deposits.

MR EVANS: Well, I did not want to interrupt you.

MR MACPHERSON: The District of Columbia case, that contributed plant---

THE CHAIRMAN: I beg your pardon?

MR MACPHERSON: Mr. Evans asked if these were all customers' payments, and I have pointed out that what that decision says is:

" . . . contributed plant or plant paid for by cash contributed by subscribers or customers of utilities although belonging to the utility, should not be included

in the rate base."

We have not contended that in connection with land, for instance, the company does not own it.

Q. Mr. Liddy, there was this map, Exhibit 191, which you filed, and I want you naturally to pay attention to the map from the standpoint of the Province of Saskatchewan. Now, first of all, have you ever heard of the Palliser Triangle, Mr. Liddy?

A. Yes, sir.

Q. You have named your hotel in Calgary after Mr. Palliser?

A. That is right.

Q. The Palliser Triangle suggests that from a point about halfway between Edmonton and Calgary as an apex, a line slightly east of Calgary to the border, and then another line from the apex to about Moose Jaw to the border, is in a very dry farming area?

A. Could you just draw that on my map?

Q. Yes, I would be glad to.

A. Before I say Yes to it.

Q. It is about halfway between Edmonton and Calgary, about here.

A. You said that was an apex?

Q. It comes down something like this. You have heard of that, and you know of that suggestion, Mr. Liddy?

A. Yes; that is Canada's dustbowl.

Q. Canada's dustbowl. And it was known for years as an area in which it was dry farming to a greater extent than in eastern Saskatchewan, for instance?

A. And still is, I guess.

Q. Still is. And that is what I suggest to you; it still was in 1948, the year that this map was prepared from?

A. M'hm; but we have got irrigation works there now in

places.

Q. You have?

A. We did have.

Q. What I want to point out is this, Mr. Liddy, that in that area if there is a short crop it is usually very short, and if there is a good crop it is usually very heavy?

A. Well, outside of the irrigated districts I would think that would be right, Mr. MacPherson.

Q. And I suggest to you that if you had taken the year 1942 or 1943 or 1945 or 1946, having regard to the crops in the western part of Saskatchewan that year, you would have had an entirely different picture in respect of the colour?

(Page 17240 follows)

A. I have before me, now, Mr. MacPherson, grain handlings by the Canadian Pacific in the years 1933-48. Would you mind repeating those words again?

Q. 1942-48. I started with 1942.

A. I haven't got 1942.

Q. 1943, is that in that particular area?

A. No.

Q. Or all over the province?

A. These are our total grain handlings in millions of bushels.

Q. That is all over Western Canada?

A. Here is the wheat crop if you just want the wheat I might put it in the record.

Q. Well, you can put it on the record if you wish. What I am pointing out is, that you have nothing to indicate, Mr. Liddy, the production in any particular part of the province. Your production covers the whole of Western Canada .

THE CHAIRMAN: Is this a question of wheat alone?

MR. MacPHERSON: Of grain, yes. I mean, that what I wish to point out, is this, that these colours, the red colours are in the main in districts that during 1948 had in Saskatchewan, and also in 1947 and in 1949 as it happened, very short crops or no crops at all; so the traffic would be at its minimum in those years, Swift Current and all the western part of the province then, from Moose Jaw, west and south.

COMMISSIONER INNIS: You suggest the red lines would become yellow?

MR. MacPHERSON: I suggest the red lines would become yellow.

A, May I refer you, Mr. MacPherson, to page 103 of the Canadian Pacific Submission, in the Appendix to Part I.

THE CHAIRMAN: What page?

A. Page 103 in the Appendix to Part I. This page gives the Dominion Government filed figures of the wheat crop in bushels for the three Prairie Provinces individually. Looking at the figures for 1948, (that was the crop harvested in 1948 I take it) for the Province of Manitoba in the year 1948 there were 57 million bushels, and that was exceeded by a million bushels in 1946 (only back to 1942); the Province of Saskatchewan, there the yield was 191 million and that was exceeded also in 1946 by 17 million, it was exceeded in 1944 by x 51 million , and it was exceeded in 1942 by 144 million;. In Alberta, the wheat crop in 1948 was 115 million; it was exceeded in the year 1946 by 12 million and in the year 1942 by 63 million. Looking at the picture as a whole, Mr. MacPherson, for all provinces, looking at the total there, 363 million, that was only exceeded in the years 1946 and 1944. It was much higher than it was in 1947 and much heavier than 1945,. Taking the map as a whole --

Q. I am not taking the map as a whole though. I have just been taking Western Saskatchewan, with some knowledge of crop conditions in the district in 1947, 1948 and 1949.

A. I see.

THE CHAIRMAN: Of course, this page does not show Western Saskatchewan.

MR. MacPHERSON: No, that is it, my lord. So far as the situation is concerned in Eastern Saskatchewan, it has been blessed with very heavy crops in the last three years, whereas there has been no crop in Western Saskatchewan; in

Western Saskatchewan in the years 1947, 1948 and 1949, the crop has been very light.

THE CHAIRMAN: What is the point you are making out of that?

MR. MacPHERSON: The point I am making, is that these colourings on this map, taking the year 1948, are unfair, because if they had been taken for some other years, the colours might be mostly yellow. That is my point.

THE WITNESS: My point was, that if you took some other year, some other province might have more red than is now shown. Taking the map as a whole for the whole of the Western Provinces - -

Q. I am dealing particularly with my own province, and I am pointing this out. You have certain lines. There is for instance a line from the Southern part of the province, from Kildeer to Benches, that is in red?

A. Yes, sir.

Q. There is a line from Big Beaver to Benches, that is in red?

A. Yes, sir.

Q. So far as the Company was concerned, they would both be minus quantities?

A. They are red anyway.

Q. You would not think a paying part of the line generally that year?

A. No, sir.

Q. But they join up, and however short the crop was (and it was short in 1948 in that area) when they get on this line to Assiniboia as feeders, they transfer the colour from red to yellow?

[illegible]

[illegible] LIGHT, LIFE and LOVE,

[illegible]

THE CHAIRMAN: What is the point you are making

[illegible]

MR. MACDONOUGH: The point I am making, [illegible]

[illegible]

WITNESS: My point is, that if you look

[illegible] other provinces [illegible]

[illegible] taking it as a whole for the [illegible]

[illegible]

[illegible] in order to [illegible] business. [illegible]

[illegible] part of the province

[illegible] to another, but [illegible]

[illegible]

[illegible]

[illegible]

2. Do [illegible] the [illegible] [illegible], they would

[illegible]

4. [illegible]

5. [illegible]

[illegible]

6. [illegible]

7. But when [illegible] up, and [illegible] [illegible]

[illegible] if you [illegible] in LIFE in that [illegible]

[illegible] time to [illegible] as [illegible]

[illegible] from [illegible] to [illegible]?

A. Well, I do not know whether it is all because of thsse two particular branches that you speak of or not, but probably some traffic may move that way, Mr. MacPherson.

Q. No, I am talking from Benches to Assiniboia, that part of the line.

A. That is right.

Q. All those lines are feeders, are they not, that are in red and most in yellow there?

A. Well, I don't know. They are feeders to some line.

Q. And ultimately the number of reds produces a yellow and then the yellow produces a green and then finally you have this green all the way through your line straight east.

A. The thing is not to have too many reds.

Q. Well, is it fair to the road in itself to pick the road by itself in one year?

A. Well, we give you a whole map, we do not pick it by itself.

THE CHAIRMAN: What is your answer?

A. He says it is unfair to have a red. I am just pointing out to him, we give him the reds and the yellows and the greens.

Q. Yes, but just for the one year.

A. Yes, but his last question did not have any concern with one year.

MR. MacPHERSON: Q. Yes, it did, that was the question. I asked you, Mr. Liddy, if it was fair to take for the one year.

A. Well, I will go along with you in this respect, Mr. MacPherson, that if you took a longer period of ten years, you would probably get a picture that would smooth

out some of these little crinkles in it, but the year 1948 was not picked with any design.

Q. I am not suggesting it was.

A. It was picked as the last available year we had, and a year in which the general traffic conditions of the whole country were fairly buoyant, and a year in which there was a fairly good grain crop.

Q. Well, you can take my word for it, and you can check with anybody you wish, as to the grain crop that was produced in Western Saskatchewan in 1948. The crop was likewise light in 1947. I am not suggesting that there was any design on the part of the railway in picking 1948 as the year, but I am suggesting that it does not represent truly what can develop from these points over a period of some years.

Page 17245 follows)

A. May I ask a question, Mr. MacPherson? With your intimate knowledge of the West, are there more years in that triangle that have a drought crop than have a bumper crop?

Q. I would say that there are more years in that area that have a drought crop than in other parts of Saskatchewan, that is eastern Saskatchewan or north-eastern Saskatchewan.

A. Then don't you think we have been quite fair in picking a year when there wasn't a drought?

Q. But there was a drought in that year, in that part of Saskatchewan.

A. They had a pretty good crop for all Canada.

Q. Yes, and they had a very good crop in eastern Saskatchewan and north-eastern Saskatchewan.

A. I would say, where you lose on the swings you pick up on the turn-arounds.

Q. I come back to the point that so far as the map is concerned it does not truly represent the situation over a number of years when you take the one year in a dry-farming country?

A. Well really after I have looked at these figures and everything, I don't think it is too bad, Mr. MacPherson.

Q. You don't? Well, that is all right. Having regard to all these lines, there is great variety as to the service that is performed on them, is there not?

A. I would expect that.

Q. For instance, some of them would have very little by way of passenger service.

A. Mixed trains, I would think,

Q. And others, even although they are red, would have regular passenger service.

Look at the map east from Regina to Stoughton, which has a regular passenger service ...

A. It must go somewhere else.

Q. Regina to Stoughton?

A. It has a daily passenger service?

Q. It goes through to Winnipeg.

A. Well, it is part of a through route.

Q. Part of a through route?

A. Yes.

Q. And from Mankota to Olga, there is a mixed train?

A. The cheapest form of transportation we can give them.

Q. A great many of these branch lines that you have in Saskatchewan, were built in the 20's were they not?

A. I think we built something like a thousand miles in the 20's -- I am not sure of that, Mr. MacPherson -- in the late 20's.

Q. As a matter of fact, you had a programme which went very much further than anything that was on this map, which was stopped with the depression.

A. That I don't know too much about. I should think that we may have put on paper tentatively many plans that we haven't and which we may never carry out at all.

Q. You had the approval of everyone, for instance, to the projection of a line away north to Island Falls in northern Saskatchewan? You have no knowledge of that?

A. I don't recall that.

Q. Now, Mr. Liddy, as part of the case of

the Canadian Pacific, they are suggesting a $400,000,000 extension. You are familiar with that?

A. Well, I am not familiar with the details of the programme but I am familiar --

Q. With the amounts?

A. I have heard that expressed in the Freight Rates Case and here, and whether it is still at $400,000,000 or whether some of it has been used up, I cannot say, Mr. MacPherson.

Q. You don't know how much,or if any of it has been used up?

A. I have not been dealing with that programme at all as such.

Q. As the assistant comptroller you would have knowledge that it has to do, for instnnce, with your terminals in different parts of the country, that is, part of it.

MR. EVANS: It is all in the evidence in the rate case.

MR. MACPHERSON: I know it is.

Q. Is it the same programme that was proposed by the company in the 20 per cent Rate Case?

A. I couldn't answer that definitely.

Q. You cannot answer that definitely?

A. I would think it is, but I am not sure of that.

Q. Well, your department has to furnish the money ultimately, hasn't it?

MR. EVANS: We are not committed to that programme, Mr. MacPherson. As has been pointed out, there has been no decision as a committal to go ahead with that programme. Mr. Crump made that quite clear when he gave his evidence; he could not make that decision until he knew where the money was coming from.

We said it was desirable, but there was no commitment to the programme until we knew where the money was coming from.

MR. MACPHERSON: Q. Is there anything in the accounts of the company, or have you set up anything having to do with this programme?

A. No, sir.

Q. You have, for instance, a terminal in Montreal that you are proceeding with at the present time.

A. Yes, almost completed.

Q. It is almost completed.

A. That is right.

Q. Do you know whether or not that was included in the $400,000,000 programme?

A. No, I don't know specifically whether that was a part of it or not. It all depends on when the programme was drawn up originally.

THE CHAIRMAN: Q. Pardon me, what is the terminal in Montreal that is almost completed?

A. It is a large terminal, sir, whereby we can consolidate a number of smaller yards around Montreal.

Q. Is it in the neighbourhood of the Windsor Station?

A. No, it is about five miles west of the Windsor Station. It extends from Ballantyne Junction to Decarie Boulevard, or near Decarie Boulevard in the north end of Montreal. It consists of a 'hump' yard, and of facilities for handling trains.

MR. EVANS: Mr. Crump, when he was in the witness box, gave some evidence and said that it was about --

MR. MACPHERSON: The amount of expenditure, I think, was about $11,000,000.

MR. EVANS: I have forgotten.

MR. SHEPARD: I think it was $19,000,000.

THE WITNESS: No, it is not $19 million. I think it is $10 or $11 million.

MR. MACPHERSON: Q. And that work has been practically completed?

A. The yard will be open for operation I understand this summer.

Q. And the money has been spent then so far as that undertaking is concerned?

A. Yes, sir, most of it.

Q. You do not indicate very much knowledge of that programme, Mr. Liddy. I am just wondering whether or not there has been any discussion with you as assistant comptroller as to what this is going to mean in the matter of a draft on the treasury in the years to come.

A. Well, I think an important matter like that would be discussed very carefully with the vice-president of finance, and also with our vice-president and comptroller, and I wasn't in on those discussions, Mr. MacPherson, to tell the truth.

Q. Well, do you know, for instance, whether or not the programme will mean additional maintenance, costs and charges to the treasury?

A. You mean per unit of traffic handled?

Q. Whether or not there will be more money that you will be required to find for working expenses.

A. I must admit I am a little hazy on this programme, Mr. MacPherson, but if some of it is for

expenses and new traffic, then there must be brought into the picture new facilities requiring new maintenance.

THE CHAIRMAN: Pardon me. Is this a matter that Mr. Newman can tell us about?

MR. EVANS: Yes; he is going to give evidence as to savings that can be achieved, and he will take into account gross savings and any additional maintenance, traffic service and so on.

THE CHAIRMAN: Well, it is about time to adjourn.

MR. MACPHERSON: My point is, my lord, while I am quite ready to ask Mr. Newman questions, the questions I proposed to ask Mr. Liddy had to do with finance. I don't want to start asking Mr. Newman some questions as an engineer and then find he doesn't know anything about finance.

THE CHAIRMAN: Yes, we will take that up to-morrow morning.

---The Commission adjourned at 4:45 p.m. to meet again on Tuesday, March 7, 1950, at 10:30 a.m.

ROYAL COMMISSION
ON
TRANSPORTATION

EVIDENCE HEARD ON

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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO,
TUESDAY,
MARCH 7, 1950.

THE HONOURABLE W.F.A. TURGEON, K.C., LL.D. - CHAIRMAN

HAROLD ADAMS INNIS - COMMISSIONER

HENRY FORBES ANGUS - COMMISSIONER

G.R. Hunter
Secretary

P.L. Belcourt
Asst. Secretary

COUNSEL APPEARING:-

F.M. Covert, K.C. G.C. Desmarais, K.C.	Royal Commission on Transportation
H.E. O'Donnell, K.C. H.C. Friel, K.C.	Canadian National Railways
F.C.S. Evans, K.C. I.D. Sinclair	Canadian Pacific Railway
C.D. Shepard Wilson McLean, K.C.	Province of Manitoba
M.A. MacPherson	Province of Saskatchewan
J.J. Frawley, K.C.	Province of Alberta
F.D. Smith, K.C.	Province of Nova Scotia; Transportation Commission of the Maritime Board of Trade
J. Paul Barry	Province of New Brunswick
C.W. Brazier	Province of British Columbia

Ottawa, Ontario
Tuesday, March 7, 1950.

MORNING SESSION

---The Commission resumed at 10.30 a.m.

MR. EVANS: Mr. Chairman, before my friend goes on with his cross-examination, may I refer to a question asked of me by you, sir. At page 17103 you asked me to procure for the information of the Commission particulars of the incorporation and the statutes involved in the Toronto Terminals Railway Company. I should like to put some of that information on the record. It will be very short. It was originally incorporated by the Dominion in 1906 by the statute, 6 Edward VII, Chapter 170. Under that statute it was declared to be a work for the general advantage of Canada with head office at Toronto. Its board of directors consisted of six and the powers are set forth in that statute. By that act the capital stock was to consist of $2,000,000.

That Act was amended in 1913 by 3 and 4 George V, Chapter 202, under which the securities authorized to be issued by the company were increased to $10,000,000. Then in 1914 by 4 and 5 George V, Chapter 113 , the authorized issue of securities was increased to $12,000,000. In the next year by 5 George V, Chapter 58, the company was authorized to issue securities up to a total of $15,000,000, and some additional powers were given.

In 1924 there was provision for the construction of the viaduct and the works that are now there, and the cost was to be borne by the Canadian National, Canadian Pacific, and the City of Toronto as agreed by them, or as determined by the Board. The issue of securities was authorized to be increased to $30,000,000, and power was given to the Canadian Pacific to acquire half of the total stock and guarantee the principal and interest on one half

of the bonds. Provision was also made, if desired, to issue consolidated debenture stock, that is, the Canadian Pacific could issue consolidated debenture stock to finance acquisition of the bonds. The Canadaan National was also given powers to acquire half the stock and so on. There was provision also for the guarantee by His Majesty of any bonds issued by the C.N.R. to acquire stock, and in 1925 there was some change in the law, 15 and 16 George V,Chapter 28.

In 1928 by 18 and 19 George V, Chapter 51, the Canadian National was authorized to issue certain securities to purchase half of the Toronto Terminals securities to defray the cost of the viaduct. In 1930 by 20 and 21 George V, Chapter 46, the Canadian National was authorized to issue securities up to $14,150,000, and by 3 George VI, Chapter 25, in 1939, title to the lands of the terminal company was ratified and confirmed.

THE CHAIRMAN: Was what?

MR. EVANS: Ratified and confirmed. I am told that the company does not pay any dividends on the stock held by the two railway companies. They pay only interest on the bonds issued by the terminal company and held by the two railway companies. I am also informed that the management or operation of the terminal changes for periods between Canadian National appointees and Canadian Pacific appointees. That is to say, the superintendent of the terminal for a period of one, two or three years will be a Canadian National operating officer, and likewise in the succeeding period will be a Canadian Pacific operating officer.

THE CHAIRMAN: Thank you.

S. J. W. LIDDY, Recalled

CROSS-EXAMINATION BY MR. MACPHERSON(Cont'd):

Q. Just for a moment, Mr. Liddy, referring to the information which has just been given by Mr. Evans to the Commission, Toronto Terminals is paid rental by the Canadian Pacific?

A. Both the Canadian Pacific and the Canadian National--

Q. Pay rental?

A. Pay charges based on a rental, yes.

Q. And that rental is naturally charged to railway expense?

A. That is right, under the I.C.C. classification --

THE CHAIRMAN: Q. Under what?

A. Under the uniform system of accounts issued by the Interstate Commerce Commission, that is, in accordance with that.

MR. MacPHERSON: Q. In determining that rental naturally there is taken into consideration the bond interest that is payable on these obligations that are outstanding?

A. I understand it exactly matches that except to what extent the Toronto Terminals Railway Company may themselves rent portions of their property and thus reduce that over-all rental.

THE CHAIRMAN: Q. Did you make reference there to the Interstate Commerce Commission?

A. Yes. Mr. MacPherson asked me if rental was charged in the railway accounts and I said yes, in accordance with the Interstate Commerce Commission classification which we follow closely. I may say there are primary accounts throughout the classification dealing with what we call joint facilities, joint facilities under maintenance, joint facilities under transportation and joint facilities under

rent. These are special accounts set up to handle just such a situation as the Toronto Terminals which is a joint facility.

MR. MacPHERSON: Q. But, Mr. Liddy, in your accounting you do not credit that joint facilities account with the moneys you receive for the bonds you have of Toronto Terminals, but that money you receive from those bonds you put in Other Income?

A. No, I explained why that was.

Q. I mean that is what you do?

A. No--

Q. I am not concerned with why. That is what you do?

A. That is what we do because --

Q. It is not credited to the joint facilities account as such but it is put into Other Income, the receipt you get as interest on the bonds?

A. We could not credit it in an account in which we debit it.

Q. That is the technique you apply, in any event?

A. Yes. As I explained, Mr. MacPherson, Canadian Pacific and Canadian National take into their railway account all the revenue of passengers and freight, and one thing and another going right into that terminal, right into it. That is in the railway account now. As an offset to that in the expense accounts and rental accounts is the cost of operating that terminal.

Q. Now, Mr. Liddy, referring again to Exhibit 190, the one we had yesterday and spent considerable time with, there is a column there, net income or deficit after dividends. It is the fifth column from the right.

A. Yes, I see that column, Mr. MacPherson.

Q. Now, you remember Exhibit 196, which is 49-49, and you will remember that on statement D, sheet 2, there was

provision for direct charges. It is not comparable. What I wish to say is in Exhibit 196 you have set out direct charges which I suggest to you are not reflected in that column to which I have referred?

THE CHAIRMAN: Would you please repeat that?

MR. MacPHERSON: What I am suggesting, Mr. Chairman, is this, that when this split balance sheet was prepared, which we have referred to as 49-49, there was provision for direct charges, and I am asking the witness if in fact in this column, net income or deficit after dividends, these direct charges, as set out in 49-49, are not reflected at all?

THE CHAIRMAN: And the witness says that is so?

THE WITNESS: No, I believe they are not included. These direct charges are summarized in Exhibit 196 on page 2 of a memorandum accompanying statement B, and these direct charges are as follows: Loss on lines abandoned, $11,245,159; loss on property retired and not replaced, $7,820,313; unemployment relief expenditures, $6,327,616; bond discount, $2,299,504; adjustment of compensation for express service, $2,000,000; other items, $426,217, making a total of $30,118,809.

(Page 17256 follows)

You understand, Mr. MacPherson, that the accounting of the Company before it adopted depreciation in 1940 was to charge, for example, loss on lines abandoned to profit and loss under the accounting.

Q. Now, will you look with me again at Statement D sheet 2?

A. Just so that my statement might be in context, the basis of this Exhibit 190 was the basis of the Company's accounts adjusted for one or two items such as depreciation which I have mentioned; so you see that the items that were charged to profit and loss not taken into operating expenses would not be reflected on this statement.

Q. Now Mr. Liddy, if you will look at sheet 2 of Statement D, that figure you gave me of $30,118,000, and that you have just mentioned, is merely the net?

A. Yes.

Q. That is merely the net?

A. Yes, it is the residue there.

Q. And you will see that in red letters above there is the sum of $96 million?

A. Yes, but the summarization is what I have just given you though.

Q. Yes, but I am suggesting to you, that really the direct charges as set out in Statement D, that is, the net plus that amount charged to profit and loss, $96 million, really totalling $127 million, is an amount which is not reflected in that column "Net Income or Deficit after Dividends".

A. No, you see, the $96 million which you speak of is the additional depreciation provided in the amounts of appropriations for profit and loss.

Q. That is right.

A. I have reflected that back throughout my statement.

Q. That has been reflected back?

A. Yes.

Q. Has the $30,118,000 likewise been reflected back?

A. No, not the $30 million.

Q. I quite realize it is reflected in your Net Railway Investment Account, but what I am asking you now, is whether it is reflected in the Net Income or Deficit after Dividends. I don't think it is, Mr. Liddy.

A. No, I don't think it would be there.

Q. No, that is what I say, so that in that respect, while you have reflected it or sought to reflect it in the first column, Net Railway Property Investment, it has not been reflected in the Net Income or Deficit after Dividends.

A. No, because this does not show a profit and loss account either for land or railway or anything else.

Q. So that you would have to read that column, Net Income or Deficit after Dividends, in conjunction with Statement D of 196?

A. Yes.

Q. And that would very materially change the picture insofar as that column is concerned?

A. It might make it a little blacker.

Q. A little blacker?

A. Thirty million over sixty - what is it, sixty years?

Q. Is it only the thirty million over the sixty years? Has the ninety-six million not changed that column at all?

A. No, I think the depreciation has been adjusted throughout.

Q. Well, the Commission has its own accountants and can check that. My submission, rightly or wrongly, (Mr. Liddy does not agree with me) is, that there is more than the $30 million in respect of this Net Income or Deficit column, which is not represented there because of the direct charges which were set out on sheet 2 of D in 49-49.

A. I am pretty sure it is, Mr. MacPherson, but if I am not right in that I will certainly correct it.

Q. Now, by the same token then, there are other columns that would not be correct, that do not reflect these changes in 49-49 correctly. I suggest the working expenses, including railway taxes, would not reflect these changes that were made in the split Balance Sheet.

A. It reflects all the changes.

Q. In the split Balance Sheet?

A. Yes, all the changes, because that was one of the foundation statements we used in compiling this Exhibit 190.

Q. Including these direct charges?

A. Well, as I say, this thirty million was not - the items that were charged to profit and loss - because this statement does not include a profit and loss acount; but the depreciation has been worked back, the income tax has been worked back, the split of income tax between rail and Other Income has been worked back.

Q. Not working expenses?

A. Oh, yes.

Q. Not working expenses?

A. Yes, the whole idea was to give as fair a picture as we could of comparable data; this was the whole purpose of that statement, to give a bird's-eye view and to make it comparable to the accounting that we followed in 1948,

and you recall, Mr. MacPherson, that the depreciation reserves in 1948 were - -

Q. 340 million?

A. 364.

Q. At 1948 they might have been 364.

A. I think it was 364 million. That has been deducted from the property investment and has been taken out of the expenses.

Q. Then the difference between us is this. You acknowledge that in respect of the sum of $30 million, that that sum has not been reflected either in working expenses or in net income or deficit.

A. Well, in the days when we followed renewal accounting, such charges were charged to profit and loss, and would not be in expenses.

Q. Yes, well now - -

A. I might explain to the Commission that when we followed renewal accounting and it came to renewing a station (and you may recall the example I did give you of renewing a station wherein the price of renewal is higher than the original cost), that went into expenses, that higher price. Now, when it came to retiring property, that is, abandoning it entirely, we did not charge that against expenses; we just charged it against profit and loss. So on the one hand on the renewal accounting you had expenses perhaps a little higher than we would do accounting today for renewals, and a little lower than we would do today because in the case of abandonments of property, that is, property not renewed, we charge it to profit and loss.

Q. Now, we will take the year 1905 in Exhibit 190. There, you show your working expenses as $35,086,794, and I am now referring you to Statement D sheet 1, taking 1905.

You have got working expenses, $35,086,794, exactly as you have it in 190, haven't you?

A. Yes.

Q. And then when you get to direct charges it is $36,199,809?

A. Yes.

Q. So that the figure that you have on 190 is the figure as you have it taken first here in 196, but when you take direct charges into consideration, it has increased it by over a million dollars?

A. Yes, but not in all years, Mr. MacPherson. As I say, that was a year in which there were some charges to profit and loss, but you take a year subsequent, 1920, when we adjusted our accounts for depreciation, which is one of your items, one of the amounts in your $96 million that you refer to: you will find that the expenses do not agree with the Exhibit 196, but do reflect the adjustments that I speak of.

Q. Well, in any event, the position is now that the net amount of these direct charges of $30,118,000, you do acknowledge are not reflected in these columns?

A. There is no profit and loss account here.

Q. No. Now, there are other columns that would be affected in the same way by these direct charges, aren't there? This column of net earnings would be affected?

A. Well, I have reflected in net earnings the change in income tax, the additional depreciation, which were the important items that I spoke of.

Q. Have you reflected the 30 million?

A. No, as I say, I have not.

Q. So that in that respect that column would not correctly state the position?

A. Well, now, I am not going to accept that.

Q. Well, what would you say about it? It just does not reflect that 30 million, is that it?

A. Those were the accounts as published in those particular years, and under the accounting they adopted and followed that was proper accounting, and there were $30 million of items that were charged to profit and loss and shown throughout the period which I have not picked up because I have not got a profit and loss account in this statement.

Q. But you do say that the 96 million was picked up?

A. The $96 million because we had brought that into our Railway Account in 1948. The whole basis of this Exhibit 190, was to reflect the accounting distributions that we now make. You recall the separation of income tax between rail and non-rail. I have carried that all the way back here.

Q. Yes.

A. And in property investment there were 364 millions of depreciation reserve taken off. I have worked the depreciation accruals all the way back in expenses.

Q. You see, Mr. Liddy, I can accept that probably in Net Railway Property Investment, the first column, this may have been done in line with 49-49, but I am suggesting to you it has not been carried through clean across the board.

(Page 17263 follows)

A. You are quite clear that this $96 million is spread back?

Q. Well, I am quite clear that the $96 million is supposed to be spread back.

A. It is spread back.

Q. I am asking you if it is spread back. You say that it is.

A. Yes, sir.

Q. And you say that all that is not spread back is the $30 million?

A. The items that went to profit and loss.

Q. That is all right. When you come to Other Income in that column in 190 dealing with Other Income in 49-49, provision was also made for direct charges net, which are shown on Statement B of 49-49. I am sorry, it is not in 49-49. This is information which was given to us pursuant to a letter addressed to Mr. Evans in February and it shows non-rail direct charges over the years from 1894 to 1947, of $57,672,000. In that column "Other Income Less Taxes" have you made provision for these non-rail direct charges?

A. What is the amount again, Mr. MacPherson?

Q. $57,672,000.

A. I haven't got a record of those. Without an analysis of those details all I can say, Mr. MacPherson, is this that if you take our Other Income as per our Annual Reports for the period 1885 to 1948 it totals $471 million; and there was taken out . . . the appropriations made from profit and loss for depreciation reserves that was not reflected in Other Income was $40 million, and Income Taxes to the end of 1947 which were applicable to Other Income but charged

to railway workings and expense were $34 million, and there was income tax charged direct to the profit and loss account of $5 million, and accrued interest in the sum of $100,000, making altogether a total figure of $80 million. $80 million deducted from $471 million -- that is the amounts that were not in -- bring Other Income down to $390 million, which is the Other Income, if you will add it up.

Q. Those figures other than Other Income Less Taxes that you have in this column, are they taken from the Annual Reports of the appropriate years?

A. They are taken from the Annual Reports except as I say, we are now reflecting throughout all years the adjustments we are now making for the year 1948 in respect to income tax, depreciation and so on.

Q. I take it that that column as it is on the Exhibit reflects all these items that I have been speaking about, and that the column stands reflecting the adjusted direct charges, among other things.

A. I would have to analyse those particular figures before I could make a precise statement on that.

Q. Now, Mr. Liddy --

A. I have given the reconciliation of the figures that are in there.

Q. I wish now to pass on to another subject.

MR. MACPHERSON: My lord, I think probably I had better file copies of this document; I have not had it mimeographed, but I would file the document as the next Exhibit.

THE CHAIRMAN: Copies of what?

MR. MACPHERSON: These are copies of non-rail direct charges net. They are not in any Exhibit in the

rate case, and they represent information furnished to us by Mr. Evans. They are one of the items I referred to in cross-examination.

THE CHAIRMAN: Non-rail direct charges.

MR. EVANS: My lord, I have no objection to these going in if they will serve any purpose but my friend has not told us they were going in. I see that he has some more Exhibits to come. I gave him my Exhibits in advance, but he did not do that for me. I think he might have done so. Mr. Liddy's examination-in-chief was finished nearly a week ago, and my friend expected to cross-examine him within a day or two, and yet he has kept these Exhibits until the moment he cross-examines about them.

I haven't had a chance to check these things. The witness said he did not make up this Exhibit 196, and it seems to me unfair to put to him Exhibits which my friend has got in a series of files, without having said to us, "Now, I want to cross-examine the witness about these Exhibits."

My own view is that they have no relevancy to this Commission's activities; but apart from that, it does seem to me that it would have been much fairer if my friend had given me copies in advance and indicated that he proposed to cross-examine Mr. Liddy about them. It is quite obvious to me that no single accounting witness could, by any stretch of examination, be prepared to answer questions about anything in the company's accounts which my friend may pull out of his files, without previous notice.

I just make that observation, that I do not think they are relevant, but if they were I think it is most unfair of my friend to not give notice of them.

MR. MACPHERSON: In answer to the statement of unfairness, I do not see why there was any necessity for my furnishing my friend with a copy of material which he himself had supplied to me.

MR. EVANS: A year ago. I didn't know you were going to ask about it.

MR. MACPHERSON: It is information within his knowledge. I have not examined this witness directly in connection with it; when he says he does not know about it, I desist further examination of him. But I do feel that it is information for the Board, in any event. So far as the other Exhibits are concerned, the only Exhibit --

THE CHAIRMAN: That is Exhibits which do not come from Mr. Evans?

MR. MACPHERSON: Yes, my lord. I filed an Exhibit yesterday which was a copy of the Balance Sheet of the Canadian Pacific Railway in 1885. Surely that was not new to my friend.

MR. EVANS: But we don't keep these things up to date.

MR. MACPHERSON: It is something you don't keep up to date; it is something you don't change from time to time; it is immutable, it is there.

Then I filed as an Exhibit a copy of a letter again from their own Annual Reports. If there was any computation, or anything like that, I would have given it to my friend; and I gave him a copy of an Exhibit in that connection that I might have used today, which I am not going to use, representing a computation.

Surely there is no suggestion of unfairness when I use, as I have used, merely information that they

have given me, that is, information which has been in their possession, and which they have had and which they know all about, more so than I would.

THE CHAIRMAN: Putting aside the use of the word "unfairness", I suppose what Mr. Evans really means is that using these papers and figures with Mr. Liddy necessitates further going into it by him, with a view probably of explaining certain things, if Mr. Liddy is unable to do so.

MR. MACPHERSON: And I am not pressing him.

THE CHAIRMAN: If there are any more matters which you propose to go into, it might save time to let Mr. Evans see a copy of the material.

MR. MACPHERSON: The only thing is a paper prepared last night, which I propose to use. It is purely an analysis, as far as we can go, of the Land Surplus Account. I do not propose to file it as an Exhibit, but I wish to ask certain questions on it and put the information on the record. Again, it is taken from the Annual Reports of the company.

THE CHAIRMAN: Would it expedite matters if you gave Mr. Evans a copy before examining on it?

MR. MACPHERSON: Yes, I will give it to him now.

MR. EVANS: Except, my lord, that I may want to re-examine, and Mr. Liddy may finish today. I may have to ask your lordship for permission to stand him down and bring him back.

THE CHAIRMAN: That is quite all right.

MR. MACPHERSON: I am not objecting to that.

THE CHAIRMAN: It is a matter of saving time. That is all it amounts to.

[illegible]

[illegible]

[illegible]

MR. EVANS: Mr. MacPherson hasn't answered my suggestion about its irrelevancy.

MR. MACPHERSON: If my friend wants me to deal with that, I will be glad to do so.

Exhibit 190 was put in, and it is a very important Exhibit so far as the Company is concerned. What I was trying to do yesterday and am trying to do today is indicate that some of these columns are not columns that can be accepted. I have not suggested that my friends have designedly sought to mislead the Commission, or anything of that kind. I would not suggest that. I have gone through the different columns and I have taken, for instance, the one column "Other Income Less Taxes", and I have asked Mr. Liddy about that as far as he can go. He cannot give evidence in connection with these documents that I have put in, but as I said earlier in my cross-examination this morning, the Commission has its own accountant, and if these are of any use, I think they should be used to establish the points I have made, that insofar as the column is concerned it does not, I suggest, properly reflect all the changes that have taken place as a result of 49-49.

MR. EVANS: Yet, you have not put in an accountant to say so.

MR. MACPHERSON: We don't have to put in an accountant.

THE CHAIRMAN: Will you go a step further, and tell me what you intend to argue from this deficiency?

MR. MACPHERSON: I intend to argue from this deficiency that so far as the actual figures are concerned, as a result of 49-49, that Exhibit 190 does not represent the actual present position of the company. I dealt, for instance, with dividends,

and I think I established that the column does not set out the actual receipts by shareholders from the treasury of the company.

MR. EVANS: It does from earnings.

THE CHAIRMAN: Putting it broadly, are you endeavouring to show by this line of cross-examination that the company is in a better position than this Exhibit would make it appear, all things being considered?

MR. MACPHERSON: I am going to argue, my lord, that there are a number of things in connection with the company, for instance, the question of rail and non-rail; there is also the question of segregation as made between company and company, and consequently the division they made in 49-49. I am going to argue that the division in 49-49 does not correspond with the figures here.

THE CHAIRMAN: So what?

MR. MACPHERSON: Then I am arguing that from the standpoint of the freight payer one must look at the position of the corporation as a whole; you must take the whole corporation, rail and non-rail. I will have to make my argument on that basis, my lord.

(Page 17270 follows)

MR EVANS: You could argue that without all this detail.

MR MACPHERSON: Oh, no. All this detail helps very materially; all this detail helps very materially, I would suggest.

THE CHAIRMAN: Well, go on, Mr. MacPherson.

MR MACPHERSON: Q. In the matter of land surplus accounts, Mr. Liddy---

MR COVERT: Before we go on, Mr. Chairman, I do not think this exhibit that caused the discussion has been given a number. It is 197.

THE CHAIRMAN: Yes, you told us about a non-rail direct charge.

MR MACPHERSON: Yes, 197.

THE CHAIRMAN: You have copies of that for all concerned, have you?

MR MACPHERSON: I have some copies, yes, my lord.

---EXHIBIT 197: C.P.R.Company -Exhibit (49)-49, (20% case), Statement B - Non-Rail Direct Charges (net) 1881-1947

MR MACPHERSON:Q.Now, Mr. Liddy, prior to 1931 you carried three accounts that you called surplus accounts, did you, in your books?

A. Such as land surplus and---

Q. Yes.

THE CHAIRMAN: What years?

MR MACPHERSON: Prior to 1932, my lord.

Q. You had three surplus accounts?

A. I have not got a 1931 report with me.

COMMISSIONER INNIS: I was wondering, Mr. MacPherson, whether it was possible to get a general description of the accounting systems which have been used by the Canadian Pacific over a long period. I am not sure whether

Mr. Liddy could provide that, or whether your accountants have gone into the question so as to be able to give such a description. One can follow pieces such as you have described, but it is not easy to get a description of it as a whole or of the changes as a whole.

MR MACPHERSON: Well, I could ask Mr. Liddy that.

Q. 1930, at that time you had a surplus from revenue from operations, 146, surplus and other assets, $110 million, and then you had the land surplus as well -- net proceeds, lands and townsites. Now, after 1931 this account, surplus and other assets, was abandoned; that was divided between other accounts?

A. Yes. We now only have two surpluses -- one land surplus and one straight profit and loss balance.

Q. Now, answering the question of Dr. Innis, what changes were made in the accounting system of the C.P.R. over the years, or can you assist in that connection?

A. Well, it was set out very clearly in one of the Board's judgments as to the systems.

COMMISSIONER INNIS: Do youremember which judgment it was, or could you give us the reference?

MR EVANS: On the matter of depreciation, it is set out at page 31 of the 20% judgment.

MR MACPHERSON: It is not only depreciation.

MR EVANS: I just wondered whether we could not get it a little more particularized, when we say what changes have been made. I am sure there have been many thousands of refinements in the accounting system in the process of the years. If more directly you could specify what---

COMMISSIONER INNIS: I am only interested in the broad sort of changes that have taken place. I do not know what they are , but no doubt there have been changes.

THE WITNESS: Well, might I say this, Dr. Innis,

that under any system of accounting you might make your entries, and then that system might be changed five years hence and ten years hence and fifteen years hence. There have been vast changes in accounting since 1885 -- many changes. I do not suppose that there is a year goes by that the Interstate Commerce Commission does not change its primary accounts.

COMMISSIONER INNIS: Oh, yes, I appreciate that.

THE WITNESS: I could not give you a comprehensive view of what these changes are. To us they are over the dam.

COMMISSIONER INNIS: Q. There would be no way of indicating over particular periods that a certain type of accounting prevailed, and then over another period another type?

A. Oh, yes, we have been very consistent in that respect, in broad principles, yes.

COMMISSIONER INNIS: That is all I was interested in.

THE WITNESS: The Canadian Pacific followed for road property and shop and power plant machinery renewal accounting since its inception up until July 1st, 1942, and then it went to depreciation accounting. That is the only change that was made in accounting for road property. Now, when depreciation takes place, may I say that the previous practice of charging losses to profit and loss for lines abandoned and large projects retired and not replaced, was always charged to profit and loss, because there was no reserve, but when we started depreciation accounting we immediately set up a nucleus, and some of these adjustments that I have been speaking of were to build up that nucleus. Now we have a reserve, and you can charge a $10 million item to that reserve and not upset your year's accounts. So that there was really only one fundamental change made through-

out all the Canadian Pacific history in road property. Now, in respect of equipment, it may be two or three changes, depending upon the degree of refinement you speak of. Let me describe it this way, that up until the year 1930 the Canadian Pacific followed the replacement accounting for its equipment; that is, a unit of equipment was retired, the capital account remained the same, and a new unit was brought in and charged to expenses. That is, take a $2,000 freight car that may be retired and replaced by a $2,500 freight car; that $2,500 was all charged to expenses. Now, in 1930 we were looking forward to complete abandonment of that replacement programme, because the cost of new units of equipment not only was increasing, but they were greatly increasing in size, and the fundamental feature of the replacement accounting became obviously out of line. So we looked forward to abandoning completely replacement accounting, and we went to retirement accounting, but we struck the depression right then, and we felt that, since there were many cars and locomotives on hand, we would not need during the depression, we could retire them perhaps in advance of the time we might ordinarily retire them, that our retirement charges would represent a fair amount to be charged to expenses during the depression. Well, immediately that situation changed; that is, these retirements began to dry up. We had retired all the old equipment we wanted to retire. Then came along the war, and we needed every wheel we could get rolling. No longer did we have retirements on hand to charge out to expenses, so we immediately converted to depreciation accounting for rolling stock. So really there was only one change, although it was perhaps in a ten-year period between retirement and depreciation accounting. That is the only change that has existed throughout the entire history of the company. Now Mr. MacPherson has pointed out some adjustments. They

exist in all railways on this North American Continent.

THE CHAIRMAN: Q. They what?

A. Such adjustments exist with all railways.

MR MACPHERSON: Q. Well, Mr. Liddy, perhaps it would simplify it if I put this question to you, and it might help Dr. Innis as well: What changes have you made in your treatment of such major items as land surplus over the years? Has there been a consistent policy in the matter of handling land surplus or the proceeds from land over the years, or has it changed from time to time, and why?

A. That is not on Exhibit 190, of course, at all.

Q. No, no; that arises out of Dr. Innis' question. Have you had a consistent policy from 1885 in the matter of handling land policy?

A. I think it has been rather a matter of expediency.

Q. Yes?

A. What we needed to do at the time if we had any surplus in the land account.

Q. And in the matter of Other Income, as you call it now, has there been consistency from 1885 in the handling of that?

A. Well, broadly speaking, I would say yes.

Q. It commenced in 1911, didn't it?

A. Well, you gave me some figures the other day where we seemed to be paying dividends out of Other Income away back in 1907.

Q. Well, you were not paying dividends out of land surplus in 1907; was that Other Income?

A. Well, it was interest on deferred payments.

Q. I show you your Annual Report for 1911.

A. Yes.

Q. "The following details are the details of Special Income." That was when you set up Other Income, wasn't it?

A. Either 1910 or 1911.

Q. 1910 or 1911.

A. Well, I have some small amounts of this Other Income I presume which came from Exhibit 49-49, in the year 1892, $33,000, and so on.

Q. Well, just answering that question, Mr. Liddy, dealing with this major item of Other Income, and dealing with the major item of land surplus, there has been over the years a policy, as you put it yourself, of expediency in handling the proceeds there?

A. Well, I don't know whether---

Q. In the interests of the company?

A. I don't know whether it is a policy. I don't think you would call it a policy as such. It has been a matter of expediency.

Q. And a practice?

A. Well, I don't know whether expediency can be described as a practice.

Q. Well, it is your word, not mine, Mr. Liddy.

A. Well, all I can say to you is this, Mr. MacPherson, that the railway company over the years has occasionally had to lean on Other Income, by force of circumstances.

Q. And lean on land surplus too?

A. Yes. During the midst of the depression we scarcely had anything to lean against.

Q. Now, Mr. Liddy, I have been dealing -- is there anything further, Dr. Innis? -- I have been dealing with the surplus accounts in 1931 and 1932. You have in your Annual Report in 1931 surplus revenue from operations, surplus and other assets, $111,258,000. Now, in 1932 that disappears, doesn't it? You might just look at it in 1932. In 1932 you no longer have this surplus account in other assets?

A. Did it describe the reason in here? Did you look

it up?

Q. What you did, it was split, and my next question is, if there was not transferred to land surplus in 1932 $56,316,000?

A. How much?

Q. $56,316,000.

A. Do your notes indicate where that came from?

Q. It is from the Annual Report, the 1932 Annual Report.

(Page 17278 follows)

A. Well, it ought to be on the balance sheet.

Q. There it is. Did you find it?

A. Yes. The annual report for the year 1932 shows on page 16 under land surplus account two items, net proceeds lands and townsites, December 31st, 1931, of $72,000,000 odd, and surplus in lands and properties, December 31, 1931, transferred from surplus in other assets, $56,000,000, making a total of $128,000,000 to which sales of the land for that year were added, and there were deducted expenses during that year leaving land surplus at December 31, 1932, as per balance sheet of $120,000,000.

Q. Yes?

A. So that land surplus from 1931 went up from $72,000,000 to $120,000,000 largely because of this transfer from surplus and other assets. What they are I could not tell you right now, sir.

Q. I think probably I will leave land at that point because, Mr. Liddy we have not followed up what was suggested yesterday in connection with land, and that can be followed up later to see if we can get these particulars.

MR. EVANS: before my friend goes on, in answer to Dr. Innis, Mr. Liddy, you used the term "replacement accounting". Is that synonymous or otherwise with renewal accounting so that we will not get the two terms mixed?

THE WITNESS: I think it probably would be more correctly described as renewal accounting. The distinction is a little fine but I think we have described it throughout as renewal.

MR. MACPHERSON: Q. I just wanted to refer for a moment, Mr. Liddy, to the 49-49 account and to the sales of ordinary stock. I suggest it is a fact that when this ordinary stock was sold from 1902 on that the first oppor-

tunity was given to shareholders to buy that stock?

A. From what year on?

Q. From 1902 - 1903 on?

A. My memory does not go back prior to the period of the late twenties. I do know there were rights issued with the stock at that time.

Q. Well, you reognize Moody's Steam Railroads?

A. Yes.

Q. And it is recognized as an authority?

A. Outside of errors I think it would be all right.

Q. On page 1440 of the 1949 edition there is a paragraph dealing with subscription rights, and it says that stockholders have received the following subscription rights: March, 1902, price per share, $100, per cent of holdings, 30%, value of rights 6½ to 3; October, 1904, price per share $100, per cent of holdings 20%, value of rights 6¼ to 5; April, 1906, price per share $100, per cent of holdings 20%, 12¼ to 11½; January, 10 1908, $100, per cent of holdings 20%, value of rights 10-1/8 to 9; January 1912, $150, percentage of holdings 10%, value of rights 8-3/8 to 7-1/8.; January, 1913, $175, percentage of holdings, 30%, value of rights 21 to 14½; August 19, 1927, $150, percentage of holdings 12½%, value of rights 4¼ to 3-1/8; May 2, 1929, price per share $170, percentage of holdings 10%, value of rights 7 to 4½.

A. Yes, I bought some of that 1927 stock.

Q. Some of the 1927 stock?

A. And I guess the value of those rights turned out to be something different from what I thought they were going to be.

Q. In any event, the fact was that you had certain rights yourself then?

A. Yes, sir.

Q. And if you had chosen you could have disposed of those rights on the market?

A. Yes, sir.

Q. You did not do it?

A. No, sir.

Q. I judged that.

MR. EVANS: Are you suggesting this is a wrong practice?

MR. MACPHERSON: No, I am not suggesting at all. I am suggesting it is probably the usual practice. I am not suggesting it is a wrong practice at all, but I am suggesting so far as the shareholders were concerned that if these rights were exercised there was there the opportunity of making more money so far as they were concerned.

MR. EVANS: That is just the inference I was afraid of, you see, because my friend has not put an accounting witness on the stand, and he is making suggestions of that kind to the Commission. I suggest to the Commission - and I am no expert on the subject but I am at least as expert as my friend, Mr. MacPherson -- that unless they do that kind of thing and they put the stock issue on the public market it will depress the price to some extent by having a large issue put on the market, and it may very well pay to offer rights of this kind to the stockholders to avoid the effect of market pressure on the issue of a large block of stock. I am only suggesting that but I have every right to suggest it just as my friend is suggesting to the contrary. I do not think these things should be just left unchallenged.

MR. MACPHERSON: My friend can argue that.

THE CHAIRMAN: Are you suggesting anything in particular?

MR. MACPHERSON: I am --

MR. O'DONNELL: Just condoling with Mr. Liddy.

MR. MACPHERSON: Condoling with Mr. Liddy, Mr. O'Donnell says, but it is not exactly that. What I am doing is trying to complete the picture so far as the record is concerned in the matter of the sale of shares, and while it may be argued by my friend, and while it is quite usual to give these rights as stated here, I am showing through this evidence that these rights had a real value to the shareholders.

MR. EVANS: But you are not; that is my point.

MR. MACPHERSON: Why haven't I?

MR. EVANS: For the simple reason --

THE CHAIRMAN: It seems to me in going into all these things what you are really getting at is the question of non-disclosure. Is that it, Mr. MacPherson? For instance, Exhibit 190 does not disclose a whole lot of things?

MR. MACPHERSON: That is right.

THE CHAIRMAN: You are finding things here and there that you think ought to have been taken into account under these various headings.

MR. MACPHERSON: That is right.

THE CHAIRMAN: Well, we will hear argument about that later.

MR. MACPHERSON: Yes, there will be argument on that. Mr. Liddy, I don't think there is anything more I want to ask you. Thank you very much.

CROSS-EXAMINATION BY MR. SMITH:

Q. I have a very few questions and will not take the time of the Commission to any great length. Mr. Liddy, I want to direct your attention to one point, and that is with respect to the practice of the Interstate Commerce Commission in connection with the rate base. Are you familiar with their

practice?

A. No, I am not familiar with their practice, Mr. Smith. In the rates case that was handled by another witness, as you know.

Q. Well, you are aware that statements have been made from time to time during the course of these proceedings with respect to the practices of the Interstate Commerce Commission in determining a rate base?

A. I have heard some of those, yes.

Q. You yourself are not familiar with the practice?

A. No, I have not informed myself fully as to the practice but I do know fairly well what accounts are in the rate base, what investments, and what the Interstate Commerce Commission have done about valuation.

Q. Reference has been made, I think by my friend, Mr. Evans, as to the practices of the Interstate Commerce Commission from time to time during these hearings. Were you present when he made any of these statements?

A. Well, I may have been present for some but I have not been present practically at all throughout the freight rate evidence, and so on.

Q. Perhaps I might refer you to one statement and ask you if you remember it. I refer to volume 86, page 16753.

MR. EVANS: I hope you are not going to ask the witness whether he agrees with his counsel.

MR. SMITH: I will conduct my examination as I please subject to direction of the Commission.

THE Chairman: We had better wait until Mr. Smith proceeds to ask his question.

MR. EVANS: I just said that I hope he is not going to ask the witness whether he agrees with his counsel.

THE CHAIRMAN: Whether he what?

MR. EVANS: Whether he agrees with his counsel.

THE CHAIRMAN: He has not asked him yet. We will wait until he does.

MR. EVANS: If my friend was not too sensitive he might not have any objection to what I said.

MR. SMITH: I wish my friend would confine his remarks to the Commission and not to me. I think it is a highly objectionable practice, interfering with counsel, addressing remarks to counsel. If my questions are objectionable you, sir, are the person to decide.

THE CHAIRMAN: Go on, Mr. Smith.

THE WITNESS: What page did you refer to?

MR. SMITH: I referred to page 16753. The statement reads:

"The Interstate Commerce Commission made a valuation and have kept that up to date on a reproduction cost basis until about two years ago ago."

THE CHAIRMAN: Valuation of what?

MR. SMITH: Valuation of the property of the railways.

THE CHAIRMAN: All railways in the United States.

MR. SMITH: I continue:

"They may still keep the figures. They, for many years, allowed a rate of return based on an average of the depreciated cost basis and the reproduction cost less depreciation, and so up until Ex Parte 166 that was the basis on which the Interstate Commerce Commission went."

Q. Do you remember that? Were you present at that time, Mr. Liddy?

A. I rather think I was.

Q. I will just refer you to another passage.

A. Do you want to ask me anything about that?

Q. I will ask you in due course. I will just refer you to another passage in volume 88 at pages 17030 and 17031. Perhaps I will just read the passage on page 17031. It reads:

> "In the United States, of course, it is quite a different situation. In the United States all railways go in on one application."
>
> THE CHAIRMAN: Is this Mr. Liddy's own statement?
>
> MR. EVANS: My statement.
>
> MR. SMITH: The statement of Mr. Evans. I continue:
>
> " Now, the requirements of each of the several hundred railways will all be different, and the rate of return on each of several hundred railways will all be different. What they have done there is to take the total railway property investment as shown by the books of the company, depreciated, and they have calculated an average rate of return on groupings of railways -- the Pocohontas group, the eastern carriers, the western carriers and the southern carriers -- but they do not take in the investment of each railway and the return for each railway; that would be a physical impossibility."

Q. Did you also hear that statement made by Mr. Evans? Was that in your presence? Well, do you agree with these two statements made by Mr. Evans?

MR. EVANS: There is exactly the question I was anticipating. If I made a mistake I am quite prepared to admit it. All my friend has to do is to point to the decisions, and if he has found I made a mistake I will admit it, and I will be the first to do so. I am not infallible, and I expect perhaps my friend has got something that he thinks I mis-stated. If he has all he has to do is mention

it and then we will have a statement.

THE CHAIRMAN: I do not see that it would be referring to any mistake you made. He is reading some evidence Mr. Liddy gave --

MR.SMITH: No, it is a statement of Mr. Evans.

THE CHAIRMAN: What about it? He read your statement.

MR. SMITH: And I asked him --

THE CHAIRMAN: You did make it, did you not?

MR. EVANS: Quite.

THE CHAIRMAN: Why should he not ask Mr. Liddy what he thinks about it? Mr. Liddy was here and heard you make it, I suppose.

MR. EVANS: Yes, sir. This is a question of law, interpreting the Commission's judgments. I was giving my recollection of certain judgments. I submit it is improper in the first place to ask the witness for a conclusion of law, and in the second place I think it is improper for him to ask the question whether he agrees with his counsel.

THE CHAIRMAN: Mr. Smith has taken your statement of the law which you have given, and which shows that the Interstate Commerce Commission groups various railways of the United States into different groups - there are so many of them - and then it seems after having made a valuation they strike some sort of average for the group.

MR. SMITH: That is one of the statements.

THE CHAIRMAN: If you have stated these things why can Mr. Liddy not be asked what he thinks about them?

MR. EVANS: I say the answer calls for a conclusion or opinion of law on the judgment of the Interstate Commerce Commission.

THE CHAIRMAN: This is not an opinion of law so far as I have heard Mr. Smith read it. He simply read

certain facts. Read it again, Mr. Smith.

MR. SMITH: The last passage, Mr. Chairman, reads:

"Now, the requirements of each of the several hundred railways will all be different, and the rate of return on each of several hundred railways will all be different. What they have done there is to take the total railway property investment as shown by the books of the company, depreciated, and they have calculated an average rate of return on groupings of railways -- the Pocohontas group, the eastern carriers, the western carriers and the southern carriers -- but they do not take in the investment of each railway and the return for each railway; that would be a physical impossibility."

I do not think that is a question of law at all.

THE CHAIRMAN: Since you have made that statement it is a pure statement of fact, and assuming it to be as it is set out there I do not see why Mr. Liddy cannot be asked what he thinks abaut it.

MR. EVANS: I do not want to be obstructive. All I am saying is that these are my conclusions from reading the judgments.

THE CHAIRMAN: All right, that is a warning to us. We know that now.

MR. SMITH: Q. I ask you, Mr. Liddy, if you agree with those two statements?

A. I don't know enough about it, Mr. Smith. If you ask me what the Interstate Commerce Commission requires railways to put in their investment account I think I can tell you, and if you ask me what the bureau of valuation has in their accounts probably I could tell you.

MR. SMITH: Mr. Chairman, I have two documents

here which I would like to put in as exhibits.

THE CHAIRMAN: So we will know where you are going please tell us what you are aiming at.

MR. SMITH: I am aiming at showing the practice of the Interstate Commerce Commission with respect to valuation of railways in order to arrive at a rate base in the United States. I am not arguing it should be adopted in Canada at this time. I am not making any argument. I just want to put in the facts as evidence.

THE CHAIRMAN: Then you are taking as your point of departure what Mr. Evans said, what you have read.

MR. SMITH: Yes, I am just referring to that statement, and if Mr. Liddy does not agree with that statement I propose to put in two exhibits. Unfortunately I have not copies at the present time.

THE CHAIRMAN: What will they show?

MR. SMITH: These two exhibits -- you have heard about Ex Parte 168 which was the last case, and these two exhibits are exhibits numbers 1 and 2 which were put in to show --

THE CHAIRMAN: Put in --

MR. SMITH: Put in on that hearing, being documents prepared by the bureau of valuation of the Interstate Commerce Commission, and show the elements of value of property usedon all class one railways in the United Statesf First of all in the first column there is the location, the different railways in each district, and the first page of this exhibit number 1 is the one that is referred to in Ex Parte 168. It is referred to at page 18 of the report on Ex Parte 168 where it shows elements of value of property used in common carrier service, class 1 line-haul railways, January 1, 1948. That is taken from the first sheet or first page of exhibit number 1.

MR. EVANS: Who filed it?

MR. SMITH: The Bureau of Valuation.

THE CHAIRMAN: I can see that these documents will lead to a better understanding of the judgment itself.

MR. SMITH: Quite.

THE CHAIRMAN: You intend to file them as exhibits?

MR. SMITH: Yes.

THE CHAIRMAN: What do you intend to ask Mr. Liddy about them?

MR. SMITH: If Mr. Liddy is not able to answer the question I do not propose to proceed.

THE CHAIRMAN: What is your question? Formulate it.

MR. SMITH: I asked him if he agreed that that was the practice as stated by Mr. Evans, and if he does not know I do not intend to proceed by asking him questions.

THE CHAIRMAN: I understand that these exhibits themselves will show what the practice was.

MR. SMITH: I intend to put the exhibits in, with your permission.

THE CHAIRMAN: To show what the practice was.

MR. SMITH: To show the practice that was adopted.

THE CHAIRMAN: Is it necessary to ask Mr. Liddy?

MR. SMITH: I do not think it is necessary to ask Mr. Liddy any more questions.

THE CHAIRMAN: For convenience' sake you might put them in now but they have really nothing to do with Mr. Liddy's examination.

MR. SMITH: Perhaps it would be fair to show them to him first.

MR. EVANS: I was just about to observe two things. I have not seen this, but there is a table on page 18 of the judgment which sets out some elements of value, and then I assume that the judgment comments on the elements of value.

I am quite content to stand on what the judgment says. Whether or not the Commission gives effect to the bureau of valuation's exhibit I do not know, except as it is shown in the judgment. If we have the material in the judgment it seems to me with the comments of the Commission upon any material appearing in the judgment we have got everything we need.

THE CHAIRMAN: What conceivable harm can it do to file these exhibits now in case we do need them when we read the judgment? If they are set out there anyhow that will be satisfactory, but just in case they are not how can they harm you in any way?

MR. EVANS: All I am saying is it means I have to wade through these comparing them.

THE CHAIRMAN: So will we.

MR. EVANS: I just say the judgment of the Commission ought to be better than an exhibit filed before the Commission just as the judgment of your Commission will be better than any one exhibit.

THE CHAIRMAN: That is right, but we have not read the judgment yet. We don't know to what extent it deals with these exhibits. We have been told that Commission allowed them in so they must have given them consideration.

MR. SMITH: Might I explain that these two exhibits were exhibits produced by the bureau of valuation of the Interstate Commerce Commission, and the figures that were used were those adopted and referred to on page 18 of the judgment. Now, this exhibit gives a breakdown of those figures with the original cost of each carrier except with respect to land and rights which in the judgment of this Commission is taken on the basis of present value. The rule which has been adopted in the United States by the Inter-

state Commerce Commission, or now adopted, is to take the original cost of everything, all the property of the company except land and rights.

THE CHAIRMAN: You say "land"--

MR. SMITH: Land and rights.

(Page 17290 follows)

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THE CHAIRMAN: What is covered by the word "land"? Does that include buildings?

MR. SMITH: Now, it is very interesting, I think, and very instructive to this Commission, to have this exhibit, inasmuch as on page 11, there is a statement of the methods employed in the ascertainment of the elements of value. For instance, if we take original cost except lands and rights, the ascertainment of original cost is stated to rest on:-

"1. Record or proof of cost of the properties included in the basic inventories and valuations, that on January 1, 1948, were still in existence and use ;

2. Recourse to estimate of original cost for properties that were in existence at the time of the original valuation and that were were still in existence and use on January 1, 1948, but for which no record or proof of original cost was then or is now available;

3. Record of changes that have occurred in properties subsequent to the date of basic inventory and valuation, reported under oath by the carriers by units and costs and checked to as late a date as possible by the Bureau of Valuation engineers and auditors;

4. Recourse in the case of carriers that are delayed in filing their reports of property changes by units and costs for some of the late years, to reports which record changes in dollars only".

Then there is a statement as to lands and rights which I could answer:-

"The foundations, upon which the values stated for common carrier lands have been built, are complete land reports underlying the primary valuations."

And it then says:-

"Later reports prepared in connection with recapture proceedings..."

and there is a full statement of the methods which have been exployed.

THE CHAIRMAN: Then file it.

MR. SMITH: I will file it. I will file this as - -

MR. COVERT: Exhibit 198. I was going to say that Mr. Smith only has one copy of it, and I think perhaps it might be advisable, before it is actually filed, for the Commission to have additional copies made. It will be 198.

THE CHAIRMAN: I guess it will have to be copied.

MR. SMITH: That is the first exhibit. The companion exhibit - -

MR. COVERT: Could we give it a name for the record. Exhibit 198 is Exhibit 1 filed in Ex Parte 168 I.C.C. Bureau of Valuation.

...EXHIBIT 198...filed by Mr. Smith	:	Exhibit 1, filed in Ex Parte 168, I.C.C. Bureau of Valuation.

MR. SMITH: Now, the companion exhibit, which will be Exhibit 199, is the Total Recorded Depreciation and Amortization, Road and Equipment, as of December 31, 1947, Class 1 Line Haul Railways including their Lessors; and it was Exhibit 2 in Ex Parte 168.

...EXHIBIT 199...filed by Mr. Smith : Exhibit 2, filed in Ex Parte 168, I.C.C. Bureau of Valuation. Total Recorded Depreciation and Amortization, Road and Equipment, as of December 31, 1947, Class 1 Line Haul Railways Including Their Lessors.

MR. SMITH: So, with those two exhibits you have both the gross rate base and the net rate base after deduction of the recorded depreciation and amortization on all Class 1 railways in the United States.

THE CHAIRMAN: Then tell me, what use did the Interstate Commerce Commission make of those figures?

MR. SMITH: That is their valuation, that is the valuation which they adopted.

THE CHAIRMAN: What are they to do with it?

MR. SMITH: They adopted these valuations. On page 18, it is stated:-

> "Elements of value of property in common carrier service, class 1, line haul railways, January 1, 1948."

Then there is shown the original - just the same set-up as on Exhibit 1. These figures are adopted as the foundation, but as I pointed out when replying to Mr. Evans, they are only shown on page 18 by districts. They are not broken down into each individual railway. But, these two exhibits show that each Class 1 railway in the United States has had its elements of value fixed and determined by the Interstate Commerce Commission as well as the depreciation of those values, so that there is an individual rate base on each railway.

MR. EVANS: Now, do you suggest that I said otherwise, Mr. Smith?

MR. SMITH: I do.

MR. EVANS: Now, will you please point to where I said otherwise?

THE CHAIRMAN: What is that?

MR. EVANS: I am asking Mr. Smith to point to my statement on the record to show where I said otherwise than that.

MR. SMITH: Right. I don't know if your lordship is interested - -

THE CHAIRMAN: I did not understand Mr. Smith was saying that you said something different.

MR. EVANS: He just now said.

MR. SMITH: I say he did say otherwise.

THE CHAIRMAN: What is it you said? You did not say at the beginning.

MR. SMITH: No.

THE CHAIRMAN: What are you saying now?

MR. SMITH: I say his statement is not correct. It says here:-

> "What they have done there is to take the total railway property investment as shown by the books of the Company depreciated, and they have calculated an average rate of return on groupings of railways...but they do not take in the investment of each railway and the return for each railway; that would be a physical impossibility".

I say that is entirely erroneous.

THE CHAIRMAN: They ascertain the valuation - -

MR. SMITH: They ascertain them individually.

MR. EVANS: Of course they do, and all my friend is doing is to torture out of my language some suggestion that

they did not take individual valuations. What I was trying to say to the Commission and what I think the record clearly discloses, was that the Commission did not specify a rate of return for each individual railway.

THE CHAIRMAN: How could they strike an average unless they took the individual - -

MR. EVANS: Well, of course.

...SHORT RECESS

...ON RESUMPTION

MR. SMITH: I read a statement which was made by Mr. Evans at page 16753:-

> "The Interstate Commerce Commission made a valuation and have kept that up to date on a reproduction cost basis until about two years ago. They may still keep the figures. They, for many years, allowed a rate of return based on an average of the depreciated cost basis and the reproduction cost less depreciation, and so, up until Ex Parte 166 that was the basis upon which the Interstate Commerce Commission went."

I would just like to refer the Commission to the case of Ex Parte 162 reported in 264 - -

THE CHAIRMAN: This is a new case is it?

MR. SMITH: No, my lord, it has been referred to before.

THE CHAIRMAN: What is it?

MR. SMITH: There were several reports in Ex Parte 162.

THE CHAIRMAN: Have we them all? Have we been getting them all?

MR. SMITH: I think probably you have, my lord, but I will give your lordship the reference to this one. It is 264 I.C.C. 695 at page 725 and following pages.

THE CHAIRMAN: That is Ex Parte 162?

MR. SMITH: 162, and it is shown there on those pages that the valuation which is shown on 727 is based on original cost, and that they used as a basis the values for January 1, 1938, and allowed for the net amount of subsequent increases and retirements, changes in recorded depreciation, amortization, and the normal amount necessary for working capital, in which they included necessary materials and supplies and cash.

Now, the references to valuation in Ex Parte 166 and Ex Parte 168 which have been referred to, will be found in Ex Parte 166 at 269 I.C.C. 34 at pages 47 - 49, and in Ex Parte 168, 276 I.C.C. 9 at page 17 and following pages.

(Page 17297 follows)

Now, I do not propose to get into an argument with my friend Mr. Evans on these questions. I say that these citations and exhibits speak for themselves.

THE CHAIRMAN: You are through, Mr. Smith?

MR. SMITH: I am through my lord.

MR. O'DONNELL: Might I ask what arrangment has been made for copies of Exhibits 198 and 199?

MR. COVERT: I was just going to mention that. There are three things I want to say concerning exhibits. First, with respect to Exhibit 197, I think it should be on the record that it consists of two pages; and with respect to Exhibits 198 and 199, I spoke to Mr. Smith and asked him if he could arrange to have extra copies made.

MR. SMITH: I think possibly it would be necessary to make photostats, my lord.

THE CHAIRMAN: You will do that?

MR. SMITH: Yes.

MR. COVERT: I think there should be sufficient copies to give a copy to each counsel.

MR. SMITH: 25 copies should be sufficient?

MR. COVERT: Yes.

THE CHAIRMAN: Very well.

EXAMINATION BY MR. COVERT

MR. COVERT: Q. First, Mr. Liddy, I wish to deal with a few questions on segregation of passengers and freight. I do not wish to take up too much time on it, but there are a few things that I would like to ask you. For instance, Exhibit 180, deals only with the situation in 1948. My understanding of that, briefly,

is that you can show revenues from passenger service of approximately $62.6 million, and you have a direct allocation of expense to passenger service of $39.1 million; then you have an arbitrary or theoretical portion of $52.3 million. Taking your expenses, if the allocations are correct, you have a total of $91.4 million, and revenues of $62.6 million. If your allocations are correct there would be a loss on passenger service of about $28.8 million?

A. Yes, what we call income loss.

Q. Now, assuming first that your theoretical or arbitrary apportionment is correct, you agree, I think, that that would be a substantial loss to have on a business of that volume?

A. Oh yes, sir.

Q. And it amounts to this, assuming as I say, that your apportionments or allocations are correct, you would have a profit on freight service of about $58 million and a loss on passengers of about $28 million?

A. On an accounting income basis, of course.

Q. That is what I understood. I would put it to you that ordinarily if you were conducting business and you had a situation of this kind, you would certainly try to abandon the losing business.

A. I would try to make every corner pay.

Q. Is it not fair to ask you, if, as I say, assuming your allocations are correct, you would make every attempt to abandon that losing business if you could.

A. If there were no other considerations.

Q. Yes; we will leave it at that.

For instance, when you say no other considerations, I assume

you might also say that the passenger service in this case may be very important to the freight service.

A. Yes, it is complementary; it is complementary not only to freight service but to the communities it touches.

Q. And it is also complementary perhaps to the railway's investments in hotels?

A. A lot of considerations.

Q. The next question I wish to ask you about that is whether or not, if you follow the I.C.C. practice where they have railway regulations which require a breakdown between passenger service, that it would be possible that you would arrive at exactly the same conclusions as you arrived at in your Exhibit 180?

A. Yes, it would be possible.

Q. Do you know generally, Mr. Liddy, whether or not the passenger situation in the United States is somewhat similar to Canada, as far as Class I roads are concerned?

A. Yes, I think it is quite similar. There are few railways in the United States that have a very heavy passenger density. I am thinking particularly of the New Haven; they have very frequent passenger service out of New York, and with the density they have I think probably they make a little money.

Q. There are railways in the United States that really make quite a thing of their passenger service as compared with their freight service.

A. You are thinking of the New Haven and Hartford?

Q. Yes.

A. Yes; there are not many of those, of course.

THE CHAIRMAN: What did you say they made of it?

MR. COVERT: That is a major part of their business, the passenger service which they provide. I am thinking more of railways which might be comparable to the Canadian Pacific.

Q. I wonder if whether or not you could make a very general statement to this effect, that on the whole, Class I roads in the United States regard their passenger situation as a serious one, that generally speaking they regard it as a losing business.

THE CHAIRMAN: That is, they are running at a loss?

MR. COVERT: Yes.

THE WITNESS: I don't think they regard it so much as a losing basis, insofar as they would make more money if they had no passenger business. They regard it very much like we do, that the passenger business is not able to bear its pro rata share with freight on all the items of expense.

COMMISSIONER INNIS: Q. Is it not able to bear, or will not bear?

A. Well, I am sorry but I am afraid that I cannot answer that question intelligently.

Q. I mean it will not bear it in the sense that if you raised the rates the passengers would not travel.

A. That is right, it would discourage travel. In one of the recent rate cases in Canada our passenger traffic manager made the assumption that the passenger rates, with the tax on them at that time, were as high as the traffic would bear, and it would be foolish to attempt to get them above that, you would lose more money.

THE CHAIRMAN: Q. The amount of the tax

has now been added to the fare, so the position is the same today.

A. We are a little better perhaps.

Q. I am talking about the traveller.

MR. COVERT: You mean, my lord, from the point of view of the passenger paying the rate.

THE CHAIRMAN: Yes.

Q. He is paying the same rate?

A. He is paying the same rate.

MR. COVERT: Q. Now, Mr. Liddy, are there a good many lines upon which the C.P.R. operates passenger service, which, if they had a choice in the matter, they would abandon or cut down? Do you know that?

A. I am afraid that is a little beyond my field.

Q. That is out of your purview.

A. That would be a freight and traffic matter.

Q. You do not know whether the officials of the company have prepared a list of the passenger service which they would like to abandon.

A. No, I have never seen such a list.

Q. I think you intimated that perhaps one of the considerations which possibly would be a compelling consideration in the carrying on the passenger service is the hotel investment that the C.P.R. has.

A. I wouldn't put that as primarily the first consideration.

Q. I don't mean primarily, but it might be quite a compelling consideration where you have large hotel investments.

A. Supposing you take Banff as an example. If there was no passenger service from Calgary to Vancouver

there would be excellent highway service, and our Banff hotel might become even more popular. I couldn't say.

COMMISSIONER INNIS: Q. Would the Banff hotel have been built without regard to the passenger service?

A. No.

Q. This is recent development, the highway.

A. It is most recent development, yes sir. But it was a hypothetical proposition - supposing we abandoned our train service for passengers through the mountains, what would happen to our Banff hotel? You must replace train service with an almost super highway. As a matter of fact, today there is quite a considerable traffic between Calgary and Banff by automobile and bus, irrespective of the railway.

MR. COVERT: Q. Now, Mr. Liddy, you recall in giving your direct evidence that you did not know just what percentage the railways had found directly allocable in the United States insofar as the passenger service was concerned. I wondered if you had had an opportunity to look that up.

A. I really did'nt look it up.

THE CHAIRMAN: Are you looking into the point, Mr. Covert, of whether the abandonment by the railways of passenger service might lead to a loss of freight service?

MR. COVERT: Yes, Mr. Chairman.

Q. Perhaps I could put that to you now, Mr. Liddy. Have you any view on that question, or is that within your field?

A. Yes, I think that has quite a consideration, Mr. Chairman. You see our freight and passenger facilities

are together at a point. Take for instance a small community; usually the freight station is half a mile outside the town or something like that, and the town has grown up to meet its commercial needs by taking passengers and freight from there to the station. Now we abandon the passenger service; people no longer go to the station for passenger service; they would also no longer go to the station for freight; truckers would come in, and they would make other friends. Now, I think that is one of the poorest examples that I can think of, but there is, I think, quite a connection between maintaining your passenger service to help the freight.

THE CHAIRMAN: Q. You must get a certain amount of goodwill, put it that way.

A. Yes.

Q. If you discontinued your passenger service I am sure you would have a lot of ill will.

A. Yes, I think so, because the railway is going there anyway. Take certain areas of the country, they may be exclusively Canadian Pacific. I am thinking of Mr. Frawley's southern Alberta territory which is exclusively Canadian Pacific. If the Canadian Pacific decided that just because it wasn't making all it should make out of the passenger service there, that it would withdraw the passenger service arbitrarily from that territory, I am sure that there would be a lot of ill will. I just don't see that it is possible or even thinkable.

MR. COVERT: Q. It might even be worse, Mr. Liddy, if you did not have a monopoly on that territory.

A. Yes.

Q. The freight business might all go to the other railway.

A. Yes. I have a habit of picking poor examples.

Q. Now there was considerable discussion about the use of the words "Out of Pocket Expenses" when Exhibit 180 was being considered. I was going to suggest that perhaps that was a poor phrase to use, and that a better one would be "Directly Allocable Costs", in the case of the $39.1 million; and that the "Apportioned Expenses" as you call them, might be "Indirectly Allocable Costs". Some of those may be just as much out of pocket as the directly allocable costs.

A. I would accept your terminology, yes.

Q. What I want to ask you about that is, if the directly allocable costs go up, and we will say the indirectly allocable costs go up, and your revenue from passenger service goes down, there isn't very much the company can do, I suppose, except to try to cut expenses, and perhaps what is equally as important, to adopt new technological advances.

Q. That would be to cut expenses, I suppose?

A. Over the long term, yes; to make economies.

Q. Perhaps something else would be to endeavour to encourage the use of passenger service.

A. Yes, advertising usually pays.

Q. What I wanted to find out is if you had any idea of the situation, arising out of your Exhibit 180, at what point you would think you would have to arrive at before you felt that the passenger service just would not pay, because, as I understand it today, you have some doubt about it.

A. Yes, I think the day that they are not a burden on freight, and on the side the passenger service inures to the advantage of building up freight traffic -- well, I really have not come to that point, Mr. Covert. That would not be my decision exactly.

Q. May I put it this way: Do you know whether the point has nearly been reached now where the company, the C.P.R., is sufficiently worried about it to consider the question of abandonment?

A. No; I think that is sometime in the future yet.

Q. Because I think you suggested that the passenger traffic was pretty static now, and that there was not much hope for increase?

A. As I see the picture right at the present time, yes. We made tremendous amounts of money out of passenger traffic during the war, of course.

Q. Yes?

A. Enough to meet our deficits for many years; but you can't count on another war, of course.

Q. Now, just before leaving that I also wanted to ask you this: Even if you kept a costing system as used by the I.C.C., and you were able to change your allocation of expenses so that you found out there was a larger figure of directly allocable expenses----

THE CHAIRMAN: Allocable to what?

MR COVERT: Allocable to passenger services.

Q. Then that still would not necessarily change the picture at all, would it?

A. That is right, that is right. When you look at the so-called income deficit of $28 million in passenger service, I don't care whether the figure is 25 or whether it is 30 or 33. There is the problem; what are you going to do about it? Management knows this situation generally.

Q. Now, that is the point. I wanted to ask you this: Has the company any recommendations to make to this Commission at all which would alleviate this position?

A. How we can solve this passenger situation?

Q. Yes.

A. I have not heard any, but I think probably that should be---

THE CHAIRMAN: Q. What is your answer?

A. I have not heard of any, but I think probably that should be a question for counsel. I am only handling the accounting.

MR COVERT: Q: Well, I felt that perhaps it was not a fair question to put to you, except that you had been examined at considerable length on it and had given quite a bit of information; I thought perhaps you could tell us whether or not they had considered such things as making it easier to abandon passenger service by putting in bus service and so on; but that, you say, is out of your field?

A. Yes; that would not come to me until it is a fait accompli.

Q. You would know, I suppose, Mr. Liddy, that there are some passenger lines which are perhaps considered highly remunerative by the railway, by the Canadian Pacific?

A. Oh, yes, that must be the case.

Q. Perhaps, for example, from Montreal to Ottawa?

A. Montreal to Ottawa, Montreal to Toronto, and Ottawa to Toronto. The density of traffic on these lines is such that you can get many cars hauled by one engine.

Q. Now, in those cases has the C.P.R. made some specific studies to see what the situation is in those cases as compared to some of the lines which perhaps you consider are not paying?

A. Well, we have made many studies of---

THE CHAIRMAN: Q. You have what?

A. We have made many studies,sir, of thin traffic lines that---

MR COVERT: Q. That is, from the passenger angle?

A. Well, both passenger and freight; that we felt should be abandoned. First an operating officer who is right on the territory and knows what the situation is, says, "This traffic is so small that I think it should be abandoned. Now, what are you making out of this line? What is your net income on this line?" And then we make an estimate and we go to the Board with that estimate and we support it the best we can, and we say those are the accounting facts.

Q. The mere fact that the railway is losing money is not a sufficient reason for abandonment?

THE CHAIRMAN: That is, in the eyes of the Board.

MR COVERT: Yes, in the eyes of the Board.

THE WITNESS: Well, we have to have quite a loss before it seems to impress the Board in some cases, but as to what elements they take in I do not know, sir.

THE CHAIRMAN: Q. Then in such cases you have hearings, have you? Is that the procedure?

A. Yes, there are hearings.

Q. Public notices given?

A. And usually the hearings are held at the territory.

Q. Some of the Board go out to the territory?

A. A few of the members of the Board go out.

MR COVERT: Q. That is to give the public in that locality an opportunity to come in and protest?

A. Everybody with a horse and buggy, yes.

MR O'DONNELL: Some in Cadillacs.

THE CHAIRMAN: Q. Have you sometimes obtained permission to abandon a line?

A. Oh, yes, we have had some permissions.

COMMISSIONER INNIS: Q. Is it the protest of the community which is chiefly responsible for the Board's refusal?

A. Well, I am really out of my field a little bit, Dr. Innis.

MR EVANS: I can tell you that, sir. The Board will weigh the disadvantages they find appearing in the evidence before them against the loss shown to exist by the railway, and will come to a conclusion on, not a formula, but a weighing of the advantages and disadvantages they have presented to them.

THE CHAIRMAN: Mr. Evans, I suppose we are all thinking and talking of proposed abandonment of a line.

MR EVANS: Yes.

THE CHAIRMAN: Both for freight and passenger services.

MR EVANS: Yes.

THE CHAIRMAN: Have there been any cases where you have sought to abandon a passenger service only and to maintain a freight service?

MR EVANS: I am sure there have been; I just cannot recall it now.

THE CHAIRMAN: It might be interesting -- that is, if without too much trouble you could ascertain that.

COMMISSIONER INNIS: I suppose mixed freight, and in most cases---

MR EVANS: Yes, in most cases that is perfectly true; but there are a large number of lines, and those are particularly in Western Canada -- there are quite a few in Eastern Canada -- where we operate what you mentioned, the word "mixed", Dr. Innis. I thought you were referring to mixed trains. They do put a passenger car on the rear of

the way freight train that runs up and down the line, and sometimes the passenger service is only twice or three times a week, or sometimes only once a week -- I am not sure of the time-tables -- but they do in many cases give an absolute minimum; they just put an old passenger car on the back of a freight train.

COMMISSIONER INNIS: You think the Board is not influenced by the protest of the community?

MR EVANS: Oh, very definitely; oh, my, yes! We think too much so sometimes. But they have an established principle there, that they weigh the protests against the losses of the railway, and they do not always come out with exactly reconcilable conclusions, but it is the technique they have employed for many years.

COMMISSIONER INNIS: Would the protest of a Member of Parliament of the party in power be very effective?

MR EVANS: Sir, may I be excused from answering that question?

COMMISSIONER INNIS: I think you have answered it.

MR COVERT: My thought was, we may be able to develop some further information on this point when we have the witnesses dealing with the C.N.-C.P. Act; they may be able to deal with it.

THE CHAIRMAN: There is the converse case not to be forgotten: To what extent does public pressure cause a railway to be built in the first place? -- having in mind particularly now, of course, the Canadian Pacific Railway. I do not know whether there are any such cases or not. That is, if we are dealing altogether with cases where the railway itself has chosen to build lines and then later on to abandon them, in whole or in part, that is one case. Is there then another case where the railway, under some sort of public demand or pressure to build a line in the first instance---

MR EVANS: We have had many examples in evidence before this Commission. There were two or three cases out west where there had been many years of pressure on the railway to build a line, and it was still brought to your Commission for consideration.

THE CHAIRMAN: Canadian Pacific also?

MR EVANS: Yes, sir -- the Fill-the-Gap Association.

THE CHAIRMAN: The case is not complete unless you have all of that.

MR EVANS: Oh, no. I am merely stating the fact.

THE CHAIRMAN: I am not talking to you in particular, Mr. Evans.

COMMISSIONER INNIS: Well, you did build under pressure in the case of the Penticton line.

MR EVANS: To Osoyoos; I think that is probable too, although I am not too familiar with the details of that.

MR COVERT: Q. In conclusion, on this aspect of the matter, Mr. Liddy, I take it that you are firmly of the view that the I.C.C. practice of segregation of freight and passenger would add nothing either to help the Board of Transport Commissioners or the railways or railway management?

A. That is right -- in Canada.

Q. In Canada?

A. Yes.

Q. And you feel that the segregation which might enable you to allocate a larger part of the total expenses to directly allocable costs, that really might in itself be arbitrary?

A. It is arbitrary in many cases. One of the rules of the Interstate Commerce Commission of separation of freight and passenger expenses is that if you have more than 50 per cent of an acoount segregated, so much freight, so much passenger, then you segregate the 49 per cent in the same

way. Well, the 49 per cent may not in fact be segregated, should not in fact be segregated, in any such proportions, but the Interstate Commerce Commission wants a formula; it wants a formula such that it can tell each one of the five hundred roads there, or whatever number of roads are involved, "Here, you do it on this basis, and we will put it all together and we get a figure."

Q. And you say that it would not either be more informative to management to find out, to enable them to tell whether or not they could cut down expenses either here or there, that would not help them in any way there, and you also say, I understand, Mr. Liddy, that in any event, regardless of whether they are paying or not, you are really stuck with the passenger traffic, and if it is losing the freight must bear it anyway?

A. Yes; and if it comes down to an individual case of an individual train, we have a much better method than an average.

Q. You could make a study of that particular case?

A. We would go out and look at that situation a little bit, and we come much closer to it than in any general average.

Q. I was going to ask you about that. Supposing you do adopt a costing system -- I should not say a costing system, but you adopt the I.C.C. system of segregating passenger and freight, would that not result in average figures in any event, or would it? I mean, would that help you, for instance, in showing whether a particular line was paying and another was not?

A. No more than our own formula would. I have got just as much faith in that formula as I have in the Interstate Commerce Commission, and I do that very economically, at very low cost.

[illegible]

[illegible]

[illegible]

Q. And the other would be expensive?

A. Very expensive. It has to go down to each individual accountant out on the line, and he has got to have a lot of detailed information sent in to him by men working on the line. There was some indication of that given to us by the Santa Fe system.

Q. Now, tell me this: You do have to follow the I.C.C. system in the lines in the U.S.?

A. Lines in Maine and lines in Vermont, class 1 roads.

Q. And they are small mileage, are they?

A. Yes, small mileage; the lines in Maine something like 240 miles; lines in Vermont 80, 85 miles.

Q. Now, I just wondered: Do you have passenger service on both of those?

A. Yes, sir.

Q. And do you know what the comparative figures are on those lines? I mean, do they---

A. No, I have not looked it up---

THE CHAIRMAN: As between passenger and freight?

MR COVERT: Yes, passenger and freight.

THE WITNESS: I have not looked it up, but it would not be indicative of the average. That was my point the other day. You would have to pick out representative territory.

MR COVERT: Q. You would have to compare them with similar territories here, you mean, in Canada?

A. Well, a representative territory. They are not, in my view, representative territory at all. Take that line across Maine -- practically no local traffic.

THE CHAIRMAN: Q. Practically what?

A. No local traffic; it is just a through route.

Q. It is a through route?

A. That is right.

Q. Is this the Vermont line you are talking about?

A. No, this is through from Sherbrooke, Megantic, through to Vanceboro and Saint John.

Q. Through Maine?

A. Yes.

MR COVERT: Q. Has the C.P.R. other lines in the U.S.A. that are owned by subsidiary controlled companies?

A. I do not see the reports; I do not handle their accounting.

Q. You do not handle their accounting at all?

A. No, sir.

Q. So you could not make any comparison there?

A. No; but all U.S. roads are available, you know, statistics of U.S. roads. It is not that we don't know it; I just haven't looked it up.

Q. Now, the next subject I wanted to deal with, Mr. Liddy, was the question of the rate of return. I think that your opinion would be that railways should be placed on a rate basis and rate of return rather than on a requirement basis?

A. That seems to be our only solution in Canada for expediting hearings and a workable formula.

Q. Is that the main reason why you suggest that, Mr. Liddy, the question of expediting rate hearings?

A. Well, I think counsel again are in a better position to handle it than I am, but these rate cases seem to be getting so involved that you can't pull a figure out of the drawer but some person jumps on it and wants to put five or six other figures up against it.

Q. Then you think that if the rate base method were adopted that would cause that situation to change?

A. There is a clear-cut situation.

THE CHAIRMAN: Q. There is what?

A. Clear-cut. You have got the jurisprudence in the United States, you have got the railways over there, and I think it is the only basis that has stability.

MR COVERT: Q. Of course, that assumes first that you get the rate base established; I suppose that might cause some difficulty and take some length of time?

A. Well, we feel we can, but once established it is established.

Q. Now, once that rate base was established, Mr. Liddy, I would like if I could to ask you to tell us how you think it would work. Now, wouldn't you be up against the same difficulty of showing what your expenses were, what your depreciation was, whether your maintenance figures were correct? Wouldn't they still all come into question in a rate hearing case?

A. Well, if you have a uniform classification---

THE CHAIRMAN: Q. If you have what?

A. If the railways of Canada have a uniform classification, sponsored by the Board of Transport Commissioners, audited bythe Board of Transport Commissioners and their own officers, then surely they will stand behind those figures. That is the very purpose of it. That is what they do in the United States. There is hardly one question comes up in which the figures of the railways are challenged. They are the I.C.C. figures, figures which they have audited. So that the burden would immediately be removed from the railways, and we would have audited figures of an impartial body, and certainly in my mind that is bound to expedite the situation.

MR COVERT: Q. So then in the final analysis you would take your rate base, after it having been established, and you would submit your figures of revenues and operating costs, which you say would then have been checked and

audited by the Board of Transport Commissioners?

A. Yes, sir.

Q. And that would show your net revenue or deficit?

A. That is right.

Q. And then you would simply have to show what your requirements are?

A. From a rate base point of view, you mean?

Q. Yes.

A. Yes; there may be arguments as to what the rate of return should be.

THE CHAIRMAN: Q. As to what?

A. As to what the rate of return should be. The rate of return may vary slightly, depending upon situations.

MR COVERT: Q. When you say that, you mean, Mr. Liddy, I presume, perhaps such considerations as the security market at the time?

A. Yes, and how long we have been depressed.

THE CHAIRMAN: Q. How long what?

A. How long the railways have been depressed. For example, if the railways were just coming out of a depression period of ten years, a rate of return perhaps a little higher than the average, in order to re-create confidence, would be advisable. I really am beyond my field, Mr. Covert.

Q. Yes; I suppose you have in mind, as heretofore, applications that are only made from time to time, with a period of years between the different applications?

A. That is right.

Q. And an application made today would be made with a view not to having another one for ten years or twelve years, or whatever the time may be; is that it?

A. Well, it may happen that way, if there are no radical changes in---

Q. You have not in mind at all the possibility of a

periodical review, say every two years or three years?

A. No, that has not been---

Q. Anyhow, without specific applications by anybody?

A. That has not been the experience, sir, in Canada.

Q. Nor in the United States?

A. Nor in the United States. These changes usually occur when there are upheavals in the price levels, business conditions.

Q. We know what has been going on so far.

A. That is right.

Q. And you have in mind the same thing?

A. I think that pattern may be repeated.

COMMISSIONER ANGUS: Q. Do you mean, Mr. Liddy, that it would be futile to fix a rate of return for a depression period, because no freight rates could give you that rate of return, traffic would not bear them?

A. That might be a possibility, Dr. Angus. I think that in that case our traffic manager would resist having rates fixed that were not possible to move the traffic.

Q. Then your suggestion would be that over time you should get that back by additional profit in other years?

A. Well, that is the only way to even out the situation.

THE CHAIRMAN: We will adjourn now.

---The Commission adjourned at 1:00 p.m. to meet again at 2:45 p.m.

Tuesday, March 7, 1950.

AFTERNOON SESSION

S. J. W. LIDDY - Recalled

EXAMINATION BY MR. COVERT - RESUMED:-

Q. Mr. Liddy, at the time of adjournment we were discussing rate base, and I just wanted to know if perhaps we could take round figures for your railway investment, depreciated railway investment, of, say, a billion dollars, and assume a rate of return on that. Now, perhaps I should first ask you what rate of return we should assume.

A. Well, there has been evidence given in the recent freight rates case as to that, expert evidence.

Q. Yes.

A. But you are only thinking of an illustrative figure.

Q. That is right, but I would like to take some figure - -

A. Six per cent I would suggest as illustrative, probably a little bit on the low side.

Q. Let us take 6% and that would mean that the net railway earnings would be sixty million?

A. That is right.

Q. And then you would like to add to that your Other Income.

A. Well, not in respect of rail property, sir.

Q. No, I would just like to work out what the position would be, if you would follow me on that. Could we put Other Income at, say, twenty million?

A. It would not average twenty million.

Q. No.

A. But twenty million has been a high - has been on the high side. The digest of development would probably give

us a better figure.

Q. You mean Exhibit 190?

A. Yes, sir.

Q. Incidentally, would this six per cent figure that we used, be before or after income tax? Is that the rate of return after income tax?

A. I think that is what would go to the security holders, but I am subject to correction by counsel in that respect.

MR. O'DONNELL: Mr. Liddy is without the benefit of counsel.

THE WITNESS: Thank you very much.

MR. COVERT: Q. What figure do you suggest we might take as Other Income.

A. Oh, for round figures, suppose we take ten million.

Q. Ten million, and that would give you seventy.

A. Yes, sir.

Q. Then from that, say we deduct fixed charges of - what would you suggest as a figure there? An average wouldn't you say, of fifteen million or sixteen million?

A. Oh, fixed charges are bound to go up again, Mr. Covert, as we start to borrow. Take the period 1931 to 1945. Just by inspection - -

Q. Yes, would you say around twenty five, or a little less?

A. Well, with prices going away up there, supposing we take twenty five.

Q. That would leave about forty five million?

A. Yes.

Q. Then you would deduct from that your preference dividends?

A. Well, supposing we say that something should be plugged back into the property first.

Q. I was coming to that later, if you don't mind.

A. Quite right.

Q. Deduct your preference dividends, and they would amount to about 4½ million, would they?

A. When the pound sterling is depressed, five million probably would be a safer figure. They were 5.4 million until the pound became depressed.

Q. Then we will deduct, say, 5 million and that would leave about forty million?

A. Yes, sir.

Q. Now, that would be available then for surplus and dividends on common stock?

A. Yes, sir.

Q. Now your suggestion is, and I think it would naturally be, you would say that out of that forty million something should be allowed for surplus or something to come and go on?

A. Yes, we must have poor years and good years; we cannot always have an even balance sheet every year.

Q. And your suggestion is that that amount is what?

A. Well, the Board found 15 million and a few odd thousand.

Q. Then if we deduct 15 million that will leave you 25 million?

A. Yes, sir.

Q. To pay dividends on common stock?

A. Yes, sir.

Q. And approximately what would that give, what rate of return on the par value?

A. That is a return of a little over 7%.

Q. Yes, a little over 7%.

A. Yes, that is for the corporation.

Q. That is for the corporation. What I want to find out next is what is your suggestion, Mr. Liddy, as to what should be the return apart from your Other Income. What dividends should you be able to pay just from the railway operations alone?

A. Well, it varies, Mr. Covert. For many years we have had 7% from rail and 3% from Other Income. That ratio of 7:3 has some merit. Now, today the interest rates - I am not an expert in this subject.

Q. No.

A. And I really hesitate to go into this field, but if I can help you, probably considerably lower than they were fifteen or twenty years ago. Now, whether they go back again and swing the other way, you had better ask an economist or financial man as to what his views would be.

Q. Now, if we omitted the 10 million from the Other Income, our figures would have been roughly as follows. We take the 60 million and then subtract the 25 million fixed charges, which would give us, 35 million; then take the five off for the preference dividends which would be thirty, and then take off the fifteen for surplus which would leave you 15 million for common dividends.

A. Which would be inadequate in my view.

Q. Which would be less than 5%; it would be four something yield on the par value?

A. That is right.

Q. And you say that that is really insufficient in your view?

A. In my view that would be insufficient to attract capital.

Q. To attract capital?

A. That is right.

Q. And you think, I gather, Mr. Liddy, that what you think is that that is one of the important things?

A. I think that is a basic element in determining a fair rate, what will attract capital.

Q. So that on that basis of what you more or less think things should be, for instance, as you suggest you are going to get higher fixed charges which would perhaps indicate that you intended to raise money by the issue and sale of bonds - -

A. And debentures.

(Page 17320 follows)

Q. And therefore six per cent interest on a net investment of $1 million dollars would be really insufficient.

A. It wouldn't look high enough to me. As a matter of fact, in the rates case a financial man from New York, Mr. Northey Jones of a very reputable firm, gave evidence that the rate should be 6.6 per cent.

MR. SMITH: I object to second-hand evidence of this kind being given. Mr. Northey Jones is not here. This man is merely repeating what some other witness said. Surely that is not evidence.

MR. COVERT: I do not intend to pursue the matter much further, but I do not think that is much different from what we have been doing.

MR. SMITH: Is there any question of income tax arising there, Mr. Covert?

MR. COVERT: I dealt with that first.

MR. SMITH: Is that considered in your calculation?

MR. COVERT: Yes, it was after income tax.

MR. SMITH: Has he said how much income is required before income tax?

MR. COVERT: No, I have not dealt with it from the point of view of what the gross requirements would be.

MR. SMITH: Would it not be fair to ask that question?

MR. SINCLAIR: I think it should be stated that in the record of the 20 per cent case is the evidence of Mr. Northey Jones, and it includes the cross-examination by the galaxy of gentlemen who represented

the provinces there.

THE CHAIRMAN: My impression is that we have had reference to this particular point.

MR. SINCLAIR: Yes, reference was made to it in our brief.

MR. COVERT: Q. Perhaps I should pursue the matter which Mr. Smith raised as to what would be required in the way of increased revenue from freight to bring about a 6 per cent net return on your depreciated railway investment. Have you made a calculation along those lines, Mr. Liddy?

A. I did not. I presume Mr. Northey Jones did; he studied the question very carefully.

Q. But it would require a very substantial amount after making allowance for income tax; the net revenue would have to be increased greatly, would it not?

A. That is true, but I don't look upon paying income tax as being a poor citizen at all.

Q. You don't regard that as being any different from any other expense?

A. Some person has to run the country and help pay for it.

Q. In your opinion, Mr. Liddy, are there any disadvantages at all in the rate base method rather than the requirements method?

A. No; I don't think in life that you possibly can have anything absolute, but as far as my knowledge extends I think the firmest thing is our rate base.

Q. You say there are no disadvantages either to the railway or to the shipper?

A. Well, I think that all these things have to be looked at; you just cannot pass them over. In running the railway, as an officer of the company, we always have in mind three factors: railway employees, freight shippers and railway users, and the owners. Now keeping those three factors in mind and balancing out their various interests, I don't think you can go very far wrong in reaching sound conclusions.

COMMISSIONER ANGUS: Q. Mr. Liddy, before we leave the question of rate, is the figure we have been discussing, the six per cent, strictly comparable with the figure mentioned in paragraph 44 of the Canadian Pacific brief? That is at page 64, Volume I, and the figure there is 6.52.

A. Yes, that is comparable, as I understand it, Dr. Angus.

Q. As I understand it, the 6.52 is based upon the cost of capital employed in 1948, and I suppose that means assuming that some of it is share capital and some of it bond indebtedness.

A. Now that you point that out, I don't think it is comparable.

Q. That is what I wondered.

A. No; but somewhere in our brief reference is made to the return on investment.

MR. SINCLAIR: I think it is at the top of page 69, which reads:

> "In view of Dr. Dorau's evidence in the 20 per cent case that the cost of money in Canada currently exceeded that in the United States by about one-half of one per cent, the decision of the Interstate Commerce Commission if applied in Canada might be

taken as a precedent for allowing the Canadian Pacific a rate of 6.2 per cent on its depreciated investment."

THE WITNESS: I was looking, Dr. Angus, at the middle of page 68, where it says:

"The outcome of this study was a minimum figure for rate of return of 6.6 per cent on the net investment in railway property. . ."

That was the figure I had in mind when I mentioned that particular figure.

COMMISSIONER ANGUS: Q. 6.6 per cent is not very different from 6.52 per cent, but I wonder if 6.52 or 6.6 really represented what the authors of the Canadian Pacific brief thought the figure in this column should be in rate of return on net railway property investment.

A. The 6.6 is specific. It reads:

" . . . 6.6 per cent on net investment in railway property. . ."

That is specific language. I don't see how it could be --

Q. You think that would represent a typical year, that is not specially good or specially bad?

A. I haven't really made a study of that, Dr. Angus.

Q. Would it be possible to keep it even every year?

A. No, that is quite right.

MR. COVERT: Q. Then, for instance, could I put it this way, Mr. Liddy? In the rate of return on net railway propery investment in Exhibit 190, for example, in the year 1948, the figure is 1.80?

A. That is right.

Q. That you say should be somewhat in excess of 6 per cent?

A. That return for the year 1948, that would enable the Canadian Pacific to go out and borrow money without paying a premium for it.

Q. And that would mean you would have to have a rate of return or a dividend rate on your common stock of about how much?

A. Of something over seven per cent, probably seven and a half.

COMMISSIONER ANGUS: Q. Would it mean, Mr. Liddy, or do you mean they should be able to borrow money on return of rail operations alone? I mean would you be selling your stock on this hypothesis, at par or considerably above par, because there are also dividends from non-railway property.

A. That is true, Dr. Angus. If the shareholder does not benefit from non-railway property which was built up largely out of their own earnings, you can only fool them so long; they won't give you any more money unless you make a return on it. I think in the Canadian Pacific situation where we have extensive investments in non-rail enterprises, that our dividend rate should be such that there would be no question that we could go out and borrow money at a very low rate of interest and secure a premium on any share capital that we might issue, and that would, to my mind, be a sound situation and a great benefit to Canada and to the railway entirely.

MR. SINCLAIR: If I may, I think, Dr. Angus, this study that has been referred to by Mr. Northey Jones

was worked out on a developed capitalization which amounted to 7.17, and that related to the net property investment of $1 billion $1 million, and came out at 6.6 and 2/3. I think the evidence of Mr. Northey Jones was that the Other Income was required as a cushion above that to enable the stock to sell at a premium, so that when you made an issue it would not fall below par. I think that is the fair substance of his evidence in the rate case.

COMMISSIONER ANGUS: I am trying to get this proposition: is the 7 per cent you are speaking of payable from rail earnings, and therefore to be of the order of 10, 11, or 12 per cent when you add dividends from Other Earnings, or is the 7 per cent to include the two?

MR. SINCLAIR: Well, as I remember Mr. Northey Jones' evidence, he was looking at a rate of around 10 per cent. Now, of course that would not necessarily mean that that would be disbursed to the stockholders, but it was his judgment that that kind of rate, in view of the money market at the time he gave his evidence, would require something of that nature.

COMMISSIONER ANGUS: I put it this way, if I may ask you this question: we have had earlier in these proceedings a suggestion that the Canadian Pacific stock should sell at par. Are we now discussing a suggestion that it should be in a position to sell at a premium?

MR. SINCLAIR: I think the evidence in the 20 per cent case was that it had to sell a little above par to enable an issue to be made, because if it was just at par and an issue was made, it would of course depreciate it.

COMMISSIONER ANGUS: I understand the reason, that is the legal reason, for not selling below that.

MR. SINCLAIR: Not only the legal reason, Dr. Angus. I think the evidence of Mr. Walker was -- and I am not positive of this -- that we would not dilute the equity of present shareholders by making an issue at less than par. If we did, it would naturally dilute the equity of the present shareholders.

COMMISSION ANGUS: I understand that. My question is are we really making this a test for an open level of rates which would enable you to sell your stocks sufficiently above par to take account of the fact that the purchasers of stock were acquiring an interest in the non-rail properties as well as in the rail properties?

MR. SINCLAIR: Well, I think, sir, that they would look at the corporation as a whole; I think that any investor would take the Canadian Pacific as a corporation.

COMMISSIONER ANGUS: Of course.

MR. SINCLAIR: And he would consider what would be the earnings on the non-rail investments. But then we are not considering that earning; we, I think, look upon that as a cushion, and what we are turning our minds to is, what would be a fair return on investment on rail property which, I think according to his evidence, was 6 and 2/3 per cent.

MR. COVERT: I think Dr. Angus' point is they are inseparable if you are talking about raising money by selling common stock.

COMMISSIONER ANGUS: Yes; and whether you are considering selling common stock at or below par, or at considerably above par.

MR. SINCLAIR: Of course they were relying on Other Income. If the rate on the corporate base was

6 and 2/3 per cent, that would not attract capital. They were definitely relying on Other Income to provide that cushion that would enable them to have a continuity of earning power to attract capital. I think it is quite right that you cannot separate them in the mind of the investor.

(Page 17327 follows)

MR MACPHERSON: I think, Dr. Angus, one must take the evidence of Mr. Northey Jones in conjunction with the evidence of Dr. Dorau. Dr. Dorau's evidence was to the effect that with a rate base of one billion and one, which had been urged by the C.P.R., a reasonable return would be 8.2 per cent, and Exhibit 92 in the 20% Case and the examination of Dr. Dorau on that exhibit indicate that the rates would have to be increased 81 per cent from their level prior to 1946 and 1947, freight rates, in order to produce a return of 8.2 per cent. That was Dr. Dorau's evidence, and Dr. Dorau freely and frankly admitted that it would require an increase in freight rates of 81 per cent to pay what he considered a reasonable return on a rate base of one billion and one.

COMMISSIONER ANGUS: My difficulty there is, can one take evidence given in the 20% Case as a means of interpreting what the Canadian Pacific has specifically asked for in the brief presented to us?

MR SINCLAIR: I think, Dr. Angus, that we make reference to that, and it was on the assumption that the full record in the 20% Case is part of the proceedings here.

MR COVERT: I think, Dr. Angus, that it has been explained about six times now.

MR SINCLAIR: I think it is only fair to say in answer to what Mr. MacPherson said, that Dr. Dorau did point out that he was not a freight-rate man, and he could not say how this money was to be raised from the freight rates.

COMMISSIONER INNIS: Is there any evidence to show that any railway on the North American Continent has been able to attract capital by the sale of common stock?

MR SINCLAIR: I will be glad to look into that. I am not able to answer the question.

MR FRAWLEY: I made some examination of that following the answer which Mr. Crump gave to me, that he did think that the freight shippers of Canada should be required to bring the Canadian Pacific stock back to par, and I have a table prepared which I propose to offer in evidence, primarily, sir, to show that there were a good many regulated utilities whose stock had fallen below par, was selling in the market below par -- something that I think my friend Mr. Evans told me at the time was a most amazing and extraordinary situation; but I think I have found something which will substantiate the suggestion I was making at that time, which was that there was nothing tragic at all about the fact that the Canadian Pacific stock was selling under par -- certainly nothing that should place upon the freight shippers the burden to pull it back up to par, a condition which they had nothing to do with bringing about.

COMMISSIONER ANGUS: I do not think I have been fortunate enough to get a clear answer to the question I was asking.

MR COVERT: Q. Now, Mr. Liddy, could I put this to you: You would think, I believe, that the rate of return on your net railway investment should provide in what I think Dr. Angus has termed the fat years enough to take care of the lean years?

A. I think that is an element, yes, sir.

Q. One other question I wanted to ask you about the rate base: You would recognize, I think, that it would be perhaps quite a long job to work out a rate base that would be shall we say approved by the Board? And I wanted to ask you if you had any idea as to whether that could be done otherwise than by a physical valuation?

A. Well, our idea was, Mr. Covert, that our rates base was obviously low, below cost.

Q. I do not want to get into a discussion of that, Mr. Liddy; I just wanted to ask you perhaps if you could tell me this, if you think that there is any proper way of doing it other than by a physical valuation? I think perhaps your answer to that is yes?

A. Yes; for this reason, that the Canadian Pacific is very fortunate in having a continuous record. We have not been sold and bought. We have continued as one corporation, and have our continuous accounting records, and, from what I have read -- and again I must apologize, not being an expert on this particular subject -- from what I have read, the firmest and the most informative figure is, what do the books show as to the actual cost?

Q. You consider that the C.P.R. has sufficiently detailed records to permit an independent verification of historical cost of investment in railway property?

A. Yes; we feel we have got excellent records.

Q. An independent verification of these records, would that be a long or costly proceeding?

A. I would not think so. That is a matter for people who have a little knowledge of railway physical---

Q. They would have to take some physical checks, I suppose?

A. Oh, I think so; and they ought to know what is represented, ought to know what is represented in the books when you say a terminal and when you say a bridge of a certain kind.

Q. Would you think, Mr. Liddy, that both the C.N. and the C.P. should be on a rate basis?

A. Yes; I think that is the only way to get a common yardstick.

Q. And I suppose perhaps the method of working out the rate of return on the two railways would have to be different, would it?

A. Well, you ask me these questions, Mr. Covert, and really I am not an expert, and have not really thought of these matters, but, unless I am wrong, a rate of return is to enable an enterprise to get along and be vigorous and perform the duty for which it has been set up.

Q. The same would apply to the requirements , really, too?

A. Well, there has been no end of misinterpretation of what has been requirements, and the Canadian National can speak for itself as to what return it should make to the Government. I think a rates base, property investment, gets down with the two companies to the same elements of cost, the only common ground that I know of. Requirements cannot be a common ground with the two companies.

Q. But you say a rate base and a rate of return can, that there can be a common basis?

A. Yes; they have done it in the States with far greater difficulty, fixing a rate of return for many, many railways. Surely in Canada we can fix it for two.

Q. And you think it can be done for the two?

A. I see no reason why it cannot be done.

Q. Now, in your evidence I think you were discussing the question of the ratio of the net to the gross earnings, and I wanted to ask you, if rates are to be established having regard to a reasonable return on railway property, I would suggest that the important ratio from the point of view of the regulatory body would be the percentage or rate of return on the investment rather than the ratio of net to gross earnings?

THE CHAIRMAN: Rather than what?

MR COVERT: Rather than the ratio of net to gross earnings.

THE WITNESS: I would agree with you, Mr. Covert. What is needed is for dollars to be brought in, and you have a firm figure of investment and you have a rate, and that will give you dollars. Now, an operating ratio will fluctuate, jump up and down.

MR COVERT: Q. It would not really be a proper test for a regulatory body to use, would it?

A. Not under all circumstances. You would have to make a lot of allowances and analysis.

Q. If you did you might reach the stage where the owners were entitled to twice as high a return simply because gross earnings had increased?

A. You mean if you set upon a straight---

Q. Yes.

A. Oh, yes; that would be entirely unreasonable, to do anything like that.

Q. Now, there was one point that was not cleared up satisfactorily to me, Mr. Liddy, in connection with the discussion that arose out of the examination of the basis on which the assets of roads were included in C.P.R. accounts; for example, you purchase the assets of another railway company, and I think you were asked as to how these would be included in the C.P.R. accounts?

A. A great many of the so-called acquired lines were lines that were actually built by us. I could give you a list of those, Mr. Covert.

Q. I would like if I could just to confine it to one example, to clear up a point that bothered me. Perhaps I could suggest an example to you. Suppose, for the purpose of easy figuring, you purchase property of another railway company whose assets were shown on their books at $2

million, and say you were fortunate enough to purchase the business for $1 million?

A. Yes.

Q. Now, say again, as I say, for easy figuring, that on the books the road property was valued at $1 million and the rest of the property at $1 million.

A. Yes.

Q. That is, on the books of the vendor company. How would you allocate that road property on your books?

A. In those cases we took it in at the price we paid for it.

Q. Yes, but, you see, you paid $1 million for $2 million of assets, that is, $2 million on the books of the vendor company?

A. Yes.

Q. Now, when you split that up among the various items -- and, as I say, I suggest the roadway property of the vendor company was carried at $1 million; now, how would you put that on your books?

A. We put it on our books at $1 million, as a matter of fact.

THE CHAIRMAN: Q. At what?

A. At $1 million, not at $2 million.

Q. The price you paid for it being $1 million; is that it?

A. That is right.

MR COVERT: Q. Perhaps I have not made it clear. You see, on the vendor company's books we will say the roadway was carried at $1 million, and its other assets at $1 million, so the total is $2 million, but you purchase the whole business at $1 million. Now, how do you set that roadway property up on your books?

THE CHAIRMAN: Did you say, purchase the whole

business for $1 million?

MR COVERT: That is right.

THE WITNESS: Well, there have been very few cases of that. If I was handling it I would prorate that $1 million that we paid for that property between those two assets, and the railway assets I would take into the railway property investment at that prorated figure.

MR COVERT: Q. My point is that in the final analysis you would only show on the C.P.R. books your total cost of $1 million?

A. Yes, in the corporate books.

Q. Yes.

A. That is right.

Q. So the valuation on this property which was shown on the books of the vendor company at $2 million would never appear as $2 million on your books?

A. That is right.

Q. Just $1 million. Now, the allocation of the various items of property which you purchased from the vendor company, that would be a matter of the exercise of judgment, and perhaps there might be a good many things that would enter into it?

A. It would probably require -- it might require an appraisal.

THE CHAIRMAN: Q. But in any event would it ever exceed $1 million?

A. No, sir.

MR COVERT: Q. Which you had paid?

A. No, sir.

THE CHAIRMAN: Q. It is within that $1 million that you would do your appraising and your allotting?

A. That is right.

MR COVERT: I think that question arose out of a

question that you asked, Dr. Angus, and it seemed to me that it was never cleared up, and I wanted to know if that satisfactorily answers your question.

COMMISSIONER ANGUS: Yes.

Q. What I was trying to lead up to was this, Mr. Liddy: Would that type of valuing property that is acquired by purchase make it very difficult to compare two railways, assuming that one of them had built its own line throughout and that the other had gradually purchased a number of bankrupt companies? Would the result be to give those two railways very different rate bases for the same physical assets, or at any rate for comparable physical assets?

A. I do not think the proportions would be large, Dr. Angus, but a lot would depend upon how good a bargainer they were.

Q. Yes, everything would depend on that.

THE CHAIRMAN: Q. Depend on what?

A. How good a bargainer the purchaser was -- if he is going to pay a lot of money for some property that is not worth very much, then you cannot compare it with anything, can you?

COMMISSIONER ANGUS: I was thinking, of course, ultimately of comparability between the Canadian Pacific and the Canadian National.

THE WITNESS: Well, all I can say is for the Canadian Pacific that anything we bought we thought had some value before we paid for it. Now, the Canadian National no doubt have their own situation and are quite capable of explaining to this Board what they have done and why they did it.

COMMISSIONER ANGUS: Q. And in the case of American railways would they be comparable?

A. Between themselves?

Q. Between themselves and with the Canadian Pacific?

A. Well, I believe that the Canadian Pacific investment can be favourably compared with any American railway. Now, that sounds like being a partisan, but it arises from the fact that the Canadian Pacific always has been in this business of transport, it received from the Government a command to operate a railway forever efficiently, and that seems to have permeated the Canadian Pacific organization, and this Other Income that we have built up has always been with the idea that we would never fail and let the Government down in doing that.

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Q. I did not mean that; I did not mean compare favorably: I meant compare accurately.

A. Well, that is quite a braod question, Dr. Angus. I don't know that I could really intelligently answer your question specifically.

MR. COVERT: Q. Mr. Liddy, would you turn to page 109 of Part I of the Canadian Pacific Submission, where it deals at the top of the page with the discussion of the review of the capital structure of the Canadian National. I am reading from about the middle of the paragraph numbered 54:-

> "Any measures designed to provide an incentive to continued and increasing efficiency on the part of the Canadian National or any other railway are desirable. Nevertheless Canadian Pacific would be deeply concerned in any reduction in the fixed charges of the Canadian National unless the principle is recognized that Canadian National should be permitted to earn a reasonable return on a reasonable level of railway property investment".

Now, as I understood from you before, you think that a rate base could be set up for each railway, Canadian National and Canadian Pacific?

A. Yes.

Q. And your point is, that as long as you have these two rate bases and the Canadian Pacific is allowed to earn a proper rate of return and the Canadian National is allowed to earn a proper rate of return, you have no objection to this revision of capital of the Canadian National?

A. I don't see how we could have objections, if the

Canadian Pacific is unable to live under fair competition.

Q. I wondered if perhaps you had in mind there might be something a little dangerous in the future. For example, I put this to you. Suppose a valuation were made of the Canadian National property, and we will say it was considerably larger than that of the Canadian Pacific, and as a result the Canadian National showed continued and handsome profits. Now, that might possibly affect the position of the Canadian Pacific?

A. And in the meantime we are earning a fair return too, sir?

Q. Yes, but this thought occurred to me, and I was wondering if it was in your mind too, that possibly since the Canadian National is owned by the people, they might feel that the monies earned by the Canadian National were too much, and they should have lower rates; while if they had lower rates that would of necessity mean that the Canadian Pacific would have to have lower rates.

THE CHAIRMAN: Pardon me a moment. This may have been disposed of before I came in because I came in late. Do I understand that there is a suggestion of two rate bases, one for each railway?

MR. COVERT: Yes.

THE CHAIRMAN: Has that been discussed? In that case what would be the common rate allowed, because it would have to be the same wouldn't it?

MR. COVERT: Yes, the rate - -

THE CHAIRMAN: There is no question of two different sets of rates?

MR. COVERT: No, I don't think so.

THE CHAIRMAN: Is there, Mr. Liddy?

A. Freight rates?

Q. Yes.

A. That would be impossible I would say.

Q. That is what I say. Then, if you have a certain base rate, say, for the Canadian National and another for the C.P.R., how would you dispose of those in fixing freight rates? Has that been discussed in my absence?

MR. COVERT: No, perhaps that has not been worked out that way, Mr. Chairman. I presume that the freight rates would have to be adjusted in your view, Mr. Liddy, so they would give the Canadian Pacific a fair rate of return on its depreciated railway investment.

A. Yes, Mr. Covert.

THE CHAIRMAN: Regardless of whether they worked out more generously to the Canadian National or not?

MR. COVERT: Yes. Would that be your view, Mr. Liddy?

A. Well, I would say that that would be our disability in that case, if we were - -

THE CHAIRMAN: If you got a fair return?

A. If we got a fair return and didn't ---

Q. Even if the C.N.R. on account of its valuation got a greater return, that would not make any difference to you, would it?

A. Well, if we got a fair return we feel that we could compete.

Q. Yes, that is the way I read this paragraph 54.

COMMISSIONER INNIS: You are not concerned as to the extent of the Canadian National's deficit which arises from the sort of competition which you would be able to give?

A. Well, that is their burden, sir.

Q. Perhaps it is the Dominion tax payers' burden?

A. Well, we help to share it of course, indirectly, and perhaps directly.

THE CHAIRMAN: You say that if there is any reduction in the fixed charges of the Canadian National, you don't want that fact to prevent your company from earning a reasonable return on a reasonable level of your railway property investment?

A. That is right.

MR. COVERT: In connection with that, Mr. Chairman, I was going to ask Mr. Liddy if he felt - -

THE CHAIRMAN: That is to say, whatever is done about Canadian National finances, you want nevertheless to have a freight rate such as will allow you to earn a reasonable return on what you called a reasonable level of railway property investment?

A. That is right, sir, and we want to be assured of that.

Q. I understand.

A. The assurance must be very firm.

COMMISSIONER ANGUS: You are saying that the Canadian National also should be permitted to earn a reasonable return on a reasonable level of railway property investment. Now, is the point that we are arguing really this, that property investment is a matter of appraisal, in fact in history if you like; that what is a reasonable rate of return for one company might not be a reasonable rate of return for the other? Is that the way in which you reconcile the two propositions?

A. Really this is again beyond what I really intended to give.

THE CHAIRMAN: You see, Mr. Covert has questioned you on that very thing, on what is set out in paragraph 54 of the outline submission of the Company.

A. Yes, sir.

MR. COVERT: I had a question, Mr. Chairman, that I thought might cut this short, if I can give it.

THE CHAIRMAN: Before you put it, perhaps this would help, I don't know. You see, in the United States there are so many railways and they are gathered together in groups, then an average is struck. Here we have only two railways and an average here would mean adding the two together and dividing by two. All right, go ahead.

MR. COVERT: Q. I had in mind that perhaps the Canadian Pacific's fear really arose out of the fact that the fixed charges of the C.N.R. might be reduced and the rates fixed on a requirement basis.

A. I believe that that would inevitably be the public pressure; the public pressure would inevitably bring that about, unless there was a firm commitment otherwise by statute or something.

Q. Yes. Then, Mr. Liddy, can I put it to you this way, that as long as both railways are put on a basis - or I suppose you are chiefly interested in the Canadian Pacific; if they are put on a basis that they get a fair return on depreciated railway investment, then you have no quarrel with what happens to the Canadian National's capital structure?

A. No, if that is a definite assurance to us.

Q. Yes.

A. Not just an informal one, but a formal assurance.

THE CHAIRMAN: Does that mean that in such a case the rate should be struck according to the requirements of

the more needful of the two companies. It must mean that.

Q. Would you mean, Mr. Liddy, or do you think there should be an average struck?

A. I think the Canadian National are capable and willing and anxious to operate their property to make a fair return on a fair value. They are the same kind of people as the Canadian Pacific officers, and they have lines extending across this country touching cities, hamlets and agricultural country; and I think the Canadian National are just as anxious as we are to earn a fair return on a fair value.

Q. Well, I wondered, Mr. Liddy, if you had given thought to a matter such as this. Take, for example, the inclusion of a line, we will say, like the Newfoundland Railway. Would that make any difference?

A. We have of course some bad eggs in our basket too, but if the Canadian National is put on a basis of earning a fair return on a fair value - -

Q. That would be an advantage - -

A. I think that would be a good point of resistance to any bad eggs coming into the basket at some future time.

Q. Then you think that might be a good thing as far as railway operations are concerned?

A. To my humble mind it appears that way, yes, sir.

Q. Now, would each railway have an interest - when I say "each railway" I am referring specifically to the Canadian National and the Canadian Pacific - would they have an interest in the valuations that were made for rate base purposes of the other railway?

A. I rather think the same principles ought to apply.

THE CHAIRMAN: What was your answer?

A. I think the same principles ought to apply.

MR. COVERT: Q. I think perhaps I have made it clear, Mr. Liddy. What I wanted to find out is, would theC.P.R. be interested in the valuation placed on the Canadian National Railway investment?

A. Well, I think we would certainly be interested in the results.

Q. Yes, that is what I mean.

A. That is inescapable.

Q. If they were both put on a rate basis, Mr. Liddy, do you think that that would mean that the Canadian Pacific would be highly interested in, or, should I say more interested in what happens in the Canadian National?

A. I think both companies would be more interested in putting their arms around each other and getting along.

Q. If they were both on a rate basis?

A. Yes, sir.

Q COMMISSIONER INNIS: You think the embrace might be warmer?

A. That is a good way of putting it, Dr. Innis. We do get along in many respects.

Q. Yes, I am aware of that.

MR. COVERT: Mr. Liddy, have you any idea how you would establish a value in the case of a railway that has been losing money consistently? For instance, let us take the Newfoundland Railway for example.

A. Well, I think that is a little bit of a problem, that railway. I have not seen it, but it is a narrow gauge railway.

Q. But I just used that as an example. We will say it operates continuously at a loss, or we will skip the name and say you have a railway such as that that always

operates at a loss; it is really a liability. How would you value that? Would that go in at - -

A. Has that railway got any prospects in the future?

Q. I don't know.

THE CHAIRMAN: What is that?

A. I would like to know if that railway has any prospects in the future.

MR. COVERT: Well, let us take a railway that has not.

A. Well, I really think that is beyond a bookkeeper's - -

Q. All right, you would say then that that would be a matter, we will say, if it is the Board, the Board of Transport Commissioners, to decide when the valuation is made. That is the way you would deal with it?

A. I think there are a number of aspects to this and I just cannot deal with them easily by a stroke of the pen.

Q. Now, Mr. Liddy, would it be fair to say that over a long period of years the requirements basis has perhaps been satisfactory to the Canadian Pacific? Shall we say, up until recently?

A. The situation, yes, I would say, that prior to 1922 the requirements basis was satisfactory . We were growing at that time, the country was rapidly expanding, there was no severe competition and the Canadian Pacific was able to get along nicely.

Q. And now you feel that the length of time taken in the hearings in the recent rate cases indicates that the requirements basis is unsatisfactory?

A. It just seems to be impossible for us to get a freight rate case within a reasonable length of time on such a basis.

Q. And you think that the fact that they are on the

requirements basis is the main reason for the delay?

A. Well, that has been a great part of our difficulty.

Q. And you say that that situation would be remedied to a large extent if you were on a rate of return?

A. It would disappear.

Q. Now, if you were put on a rate basis, that would mean a considerable enlargement of the staff of the Board of Transport Commissioners I assume, wouuldn't it?

A. It would require some enlargement.

Q. They would have to have a staff to check and audit the books of the railway companies?

A. We want them to say that they are satisfied with these figures.

Q. Yes, and they would have to have a staff that could do that.

A. Yes, I don't know how large, but they would have to have a staff that is qualified and would carry weight.

Q. Well, I suppose you know the accounting staff of the B.T.C. now?

A. It is practically zero I believe.

Q. Yes, so there would have to be a reorganization of the Board of Transport Commissioners as far as that end of it is concerned.

A. Yes, but I am not envisaging a large staff.

Q. No. Now I don't want to delve into that too much, but what I wanted to ask you was this. Supposing they had a staff that could check your figures now for the purpose of examining these figures and satisfying the Board, why could not that be done operating on a requirements basis.

A. There is no sound principle on the basis of requirements.

Q. I see, but couldn't they check your figures just as well?

A. But you have got to have a sound basis to go on, on requirements, and there is no basis. We have had a common treasury for sixty five or sixty eight years. There is no person who can say as to the money that came in and the money that went out of that treasury, what are the requirements on such a basis?

Q. Can I put this to you, that an increased accounting staff in the B.T.C. --

THE CHAIRMAN: In what?

MR. COVERT:-- in the Board of Transport Commissioners, would not in your view change the picture at all as far as rate hearings are concerned, if you remain on a requirements basis?

A. Outside of getting uniformity of accounting, there may have been some little time spent on that. Outside of that it would still leave the essential problems, the important problems in rate cases to be settled.

---SHORT RECESS

(Page 17350 follows)

--- On resuming:

MR. COVERT: Q. Mr. Liddy, I wanted to ask you this: you would have to give weight, in your opinion, to what allowance would be made or what consideration would be given for prudency of investment in any valuation or determination.

A. Now, you have me on the law of the land, Mr. Covert, but it does seem to me that prudency has some bearing. With the Canadian Pacific we think our entire investment is prudent.

Q. I am thinking of a case like the one I mentioned, you would have given weight to the prudency of investment in the case of the Newfoundland Railway?

A. Yes. You either do it in the rate or in the investment. I look upon the return as a product of the investment and the rate.

Q. If one of the railways was more prudent in its investment than the other, you would take that into consideration in determining the rate of return rather than in considering the prudency of investment as far as fixing the rate base.

A. As long as you don't strip him down to the bare bones, yes.

COMMISSIONER INNIS: Q. These bad eggs of which you spoke, are they the result of prudent investment which has later gone sour?

A. Well, take the railway in Newfoundland --

Q. You mentioned that you had some bad eggs in your basket as well as the Canadian National?

A. Yes, we have some bad eggs.

THE CHAIRMAN: Q. The point is, how did you come to acquire them?

A. Well, take some lines that were built on the prairies, the weather did it.

COMMISSIONER INNIS: Q. They were good investments at the time?

A. Yes.

Q. But conditions have changed?

A. That is right.

MR. EVANS: Could one consider the matter of determining prudency on the basis of ex poste facto?

COMMISSIONER INNIS: Yes. . .

COMMISSIONER ANGUS: Q. Did we not have another case suggested by Mr. Walker's evidence that some investments which were not prudent when first made justified themselves by the progress of events? He wasn't speaking of the C.P.R. investments.

A. That is conceivable.

MR. EVANS: That is this aspect of prudency, I would think. I would think that prudency would involve a propriety, in a sense, if good business judgment was exercised, and there was nothing improper about the methods pursued.

COMMISSIONER ANGUS: Q. I thought perhaps we were approaching this type of question: if a railway were obliged independently of its own judgment to take over some existing lines which were not at the time remunerative, and they become remunerative later, and if you were trying to establish a rate base which excluded those lines at one time because they were not capable of earning, you might have to revise that rate base later to include them.

A. I would think so, Dr. Angus. You might have many details of your investments; you might have many analysis, and it might be a varying factor throughout

the years. I just cannot see that a rate of return could be fixed in 1950 that might be a good rate in 1975. I think we must go step by step.

THE CHAIRMAN: What use is made of this word "prudency"? Is it a measure by which a company is punished for having done something which it now appears should not have been done? What use is made of the word in these American proceedings?

MR. COVERT: My understanding is this, Mr. Chairman: In considering what items are properly included in a valuation for a rate base, if the investment is not what they call a prudent investment, it may not be allowed to earn a rate of return.

THE CHAIRMAN: You are talking always of railway investment?

MR. COVERT: I think that is the general public utilities practice. It must always be a prudent investment.

THE CHAIRMAN: Yes.

MR. COVERT: For instance, if they obviously paid too much for the item, it might be examined by the Board fixing the rate base and they would say: "We will exclude this."

THE CHAIRMAN: Or cut it down.

MR. COVERT: Yes, or cut it down.

THE CHAIRMAN: They might say in effect you paid $2 million for this item and it is worth $1 million.

MR. COVERT: Yes.

THE CHAIRMAN: Has that actually been done?

MR. EVANS: I have not gone too closely into these cases, but I would like to suggest this to my friend,

Mr. Covert, that I would not interpret what I have read of the cases to go quite as far as he goes. I would have thought it was something like this, that if they paid $2 million for a property that might be worth $1 million, with some purpose in mind -- that is with some deliberate purpose of over-paying for it -- that that would raise a question of prudency; but I would not think, as I said to Dr. Innis a minute ago, that you would now attempt to say that a property at the time of purchase, forty or fifty years ago, was worth only a $1 million and you paid $2 million for it. But if knowing that, you paid more than the going value -- for instance, this might be a situation where a small railway appears to be a desirable link, and another railway may decide to purchase it; if it is worth on its books, say, $100,000, and the railway is cajoled, coaxed or for some purpose of its own decides to pay $2 or $3 million for it just because it was held up, then I think the tribunal examining the question of prudency might conclude that it was imprudent, but I would not think that you would try to evaluate it today in the light of what the property was worth at the time of purchase.

THE CHAIRMAN: Prudency must mean the prudency exercised by those who entered into the investment; it might be a disappointment later.

MR. COVERT: It really all boils down to the meaning of the word "prudency".

THE CHAIRMAN: Yes, and I am trying to find a meaning. It strikes me that prudency is something exercised by a person who spends his money, or who invests his money, in something which may within the next ten years upset all his plans, but which at the time appeared very attractive.

COMMISSIONER ANGUS: Did not the Board in the 21 per cent case use some language of that sort, that they would like to be satisfied that investments had been properly made?

MR. EVANS: Yes, sir, they did; and with all respect, I think they used it out of keeping with the law in the United States on that subject. I may say that at least one tribunal in this country has followed the law in the United States. I think the Board, at the time they wrote that Judgment you refer to, were perhaps under the impression that the onus lay on us to prove prudency of investment. That is what I read in the Judgment.

THE CHAIRMAN: What Judgment is that?

MR. EVANS: The Judgment of the Board in the 8 per cent increment case. In a majority judgment of the Board, the Chief Commissioner who wrote the majority decision, at the top of page 15, says:

> "However, I do not believe that such considerations justify me in determining without further evidence and investigation that the investments have been prudently made . . ."

I think there is a suggestion there that perhaps the Chief Commission laboured under the apprehension that we had a duty to establish the prudency of each dollar of our investment.

THE CHAIRMAN: Can you tell us in a few words what investment he had in mind?

MR. EVANS: He is speaking of net depreciated investment derived from Exhibit 49-49 which is in this case Exhibit 196.

COMMISSIONER ANGUS: There is another type of case that suggests itself. Suppose in the case of a railway owned by a government some part of a line had been constructed for some purpose of policy, for strategic reasons, shall we say, would it then be possible to say that that was financially imprudent, and that you could never expect to earn a rate of return on it and that therefore it should not be included in the rate base of that railway?

MR. EVANS: I think our brief recognizes that that may be so. I would prefer that my friend Mr. O'Donnell answer that. But speaking for myself, I would think that might be a consideration; I should think it is a consideration which would perhaps more particularly apply to a publicly owned railway, where that is more likely to occur, than in our case, where management has for fifty years been able to exercise judgment free of any consideration of that kind. I think we need not consider that in our case; whether the Board should consider it in other cases, we simply leave the question open. We think that is a matter for their opinion, but we do say that whatever is done should be reasonable.

COMMISSIONER ANGUS: The concept of something that was financially imprudent, although justified by policy, might be a very convenient way of bringing two rate bases to a level that was fair to both railways. . . that was comparable.

MR. EVANS: There is no doubt about that. I do not think anywhere in our brief is it stated or inferred that you would have to apply necessarily exactly the same considerations to ours as to theirs.

The language is rather without distinction on that point. In this paragraph 54 of the outline of the submission --

THE CHAIRMAN: I think paragraph 54 gives your attitude.

MR. EVANS: Yes.

COMMISSIONER ANGUS: I understood Mr. Walker's evidence to mean that if a deduction were made from, shall we say the rate base of a government owned railway, because the railway was not expected to be remunerative, and if conditions subsequently changed so that it became remunerative, then the rate base should be written up accordingly.

MR. EVANS: Well, I do not recall what is in your mind about that point, sir, but I think the principle on which Mr. Walker was arguing was, in the main, that the Canadian Pacific so far has been the yardstick, and the Canadian National has not been. Now, we have no objection to making the Canadian National another yardstick, just so long as you make it a yardstick and not a means by which we whittle away the former yardstick. To me that is the substance of what he was saying, and to me that is the substance of what we say in our brief.

MR. SMITH: Perhaps it might be helpful, if I referred the Commission to an authority on public utilities on this point.

THE CHAIRMAN: On the point of prudency of investment?

MR. SMITH: Yes. I refer to Barnes on "The Economics of Public Utility Regulation." Barnes, I believe, is a professor at Yale.

THE CHAIRMAN: What is the title again?

MR. SMITH: "The Economics of Public Utility Regulation." It was published in 1942 and there was a

second printing in 1947. At page 577 the author says:

"The term 'prudent' has been prefixed to 'investment' to indicate that the rate base should not include expenditures which are obviously unreasonable, extravagant, or fraudulent."

THE CHAIRMAN: He says "obviously onreasonable, extravagant, or fraudulent"?

MR. SMITH: It is a short passage; perhaps I could read the rest of it.

"The presence of the word 'prudent' in the formula has been seized upon by critics, who have protested that to set up such a standard for the rate base injects an arbitrary element that adds to the risksof, and works unfairness to, utility investors. Such is clearly not the purpose of the advocates of prudent investment. Judgment with respect to the prudence or imprudence of any investment would rest upon the circumstances and conditions prevailing when the investment was made rather than on the hindsight that might be applied when the utility should be subject to rate regulation. In the more progressive states, where the Commission has control over security issues and where utilities are required to obtain a certificate of convenience and necessity for all major extensions and additions, there is little likelihood that a utility would ever find its investment base reduced on the score that any of its investments were not 'prudent'"

Now in most utility acts in the provinces they have a requirement that in order for a utility to make a capital investment it is necessary to obtain a certificate of convenience and necessity; and it was pointed out that at that time the question of prudence would be gone into. We have a similar provision in my own province of Nova Scotia, and I am familiar with that practice. But that is the general statement by Mr. Barnes.

THE CHAIRMAN: Would you please give me that language again, at the first? What were the three adjectives?

MR. SMITH:

"The term 'prudent' has been prefixed to 'investment' to indicate that the rate base should not include expenditures which are obviously unreasonable, extravagant or fraudulent."

There is a somewhat similar statement in Bigham's book on transportation, which has already been referred to, I think, by both my friend and my friends on our side. In Bigham's work entitled "Transportation Principles and Problems," at page 246, under the heading of "Definition of Terms", on the question of valuation, he says:

"For purposes of rate making, the original cost of the property means the number of dollars or their equivalent prudently expended for the property now employed in serving the public. Note the qualifying words. The term 'prudently' excludes from the concept of original cost all moneys recklessly or dishonestly spent. The companies are not entitled to a return on investments

merely because the investments have been made. unusual foresight on the part of management should not be demanded, but if the expenditures are clearly fraudulent or improvident, the burden should rest upon the investors, not the public. The phrase 'now employed' implies the deduction from the recorded investment of all property retired and abandoned. The original cost includes the initial investment plus additions and betterments, whether the funds have come directly from security holders or from re-invested earnings; but it does not comprise expenditures that may not properly be capitalized."

THE CHAIRMAN: The words there are 'clearly fraudulent or improvident'?

MR. COVERT: Recklessly or dishonestly.

MR. SMITH: " . . . all moneys recklessly or dishonestly spent."

THE CHAIRMAN: But before that - clearly fraudulent or improvident.

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MR COVERT: Q. Mr. Liddy, I wanted to ask you this: Is it true that from a rate point of view the classification of such items as express, communications, and such things as the Toronto Terminals, etc., as rail or non-rail enterprises, is only important if rates are to be established on the basis of requirements and not in the case of if a rate base is fixed?

A. Well, generally that is true, Mr. Covert, but if you are going to -- it is a practical matter. If you are going to carry express as a burden on freight, and get that principle admitted, that is one thing; but that has never been admitted; there is no reason why the railways should carry express unless they can make it pay, as I see it. I am strongly of the view that it should be out of the rates base.

Q. That is a question of whether or not those items are left in or left out.

A. Well, if they are left in, then you have got to get a return on them.

Q. Well, if they are left out they would form part of the rate base, that is, the investment?

A. Yes. Then how are you going to adjust the rates to meet that return? If there is a loss on express, are you going to have freight take care of the loss? It confuses it, to my mind. What we want in Canada is a straightforward rates base for freight, passengers, and so on. Let it be straight railway. That is the simplest thing that I can think of.

Q. Then I wanted to ask you this: On the requirements basis, Mr. Liddy, you would agree that the position of the applicant railways for an increase would be a great deal different in times of large volume and high costs than it would if the application were made at a time when you had

perhaps lower costs and lower volume?

A. Well, it is difficult for me to say, Mr. Covert, but---

Q. What I was going to suggest was, your rate increases have come at times when the railway's costs were high, and perhaps that has been one of the difficulties?

A. Yes, it has come at a time when railway traffic is high; probably that is just as great a difficulty.

Q. I wondered if perhaps it had not amounted to this, that because it has come in these times you have really had to secure rate increases at that time in order to carry you over the perhaps leaner years?

A. Well, how in the world is a private enterprise railway to carry on---

Q. I understand---

A. ---unless we get exactly what you say, Mr. Covert?

Q. I understand your argument there, but I suggest to you that that is perhaps one of the main difficulties?

A. The stumbling block.

Q. Yes; and it is the long periods between; in other words, the railways in Canada have really had to get increases following the wars?

A. Yes. Our cost of labour and material today has gone so far beyond what the increase in freight rates has been that there is a problem there.

Q. Yes, I understand that; but I think you could agree with what I have just said. I am not going into the reasons behind it for the moment. Admitting that your costs have gone up -- that is, the facts are that you have had to apply for your increases following wars and periods of high costs, and that may be one of the difficulties, and perhaps that would not be indicative of the fact that rate hearings should take place more often?

A. Well, that has just been the situation. I think there have been quite a lot of rate cases in between wars. There was a 1913-14 western rates case, for example, before the war.

Q. I was thinking more of the general increase cases.

A. Then there was a general rates investigation case in 1926-27. But it is certainly true that wars---

Q. They have brought about the reasons for the necessity for the increases?

A. Yes.

Q. And unfortunately, as I say, you have had to apply in these periods when costs are high, and it is generally felt that the high rate will continue for a long period of time. Would you think that that was perhaps one of the reasons why there is such opposition to it?

A. Well, I don't know whether a high rate is going to apply over a long time or not. It all depends upon prices. Some people think, I believe, that prices are still going up. Maybe the rate is not high yet; maybe it is quite low. To my mind it is unfortunate that the railways perhaps did not get some relief in freight rates before the war had ended, like a lot of other industries had increases in their charge for their services.

Q. Then, Mr. Liddy, I want to leave the question of rate base, and I want to touch on just a few questions on cost accounting. You made the remark that railway operations do not lend themselves to cost accounting. Now, I just wanted to ask you this: I think the Canadian Pacific probably keeps in contact with the situation in the United States, to see what the American railways do in the question of accounting?

A. Yes. We belong to an association that discusses -- American Railway Association, Accounting Division.

Q. And presumably if cost accounting systems were designed by the Class 1 roads in the United States you would know all about them?

A. If they were acceptable accounting systems we certainly would.

Q. Now, would you say this, that as far as cost accounting is concerned the Canadian Pacific is in as good a position to determine its various costs as the Class 1 roads are in the U.S.A.?

A. That is difficult to say. I will go this far, Mr. Covert, with you, that the Canadian Pacific probably keeps as much statistical data as any Class 1 railway does.

Q. Do you know of any cost accounting system in effect in any of the U.S. roads that is better than yours?

A. No, I do not.

Q. When you say that railroads do not lend themselves to cost accounting, I wonder if you mean in effect that it is a practical impossibility to determine what it costs to ship a certain type of goods a certain distance?

A. So many imponderables, and fluctuating from time to time.

Q. And in effect you say all you can use is the usual yardstick that other railways do use; and would it be fair to say, Mr. Liddy, that the C.P.R. uses the same yardsticks as Class 1 roads in the United States do?

A. You mean in determining freight rates?

Q. Well, no; I meant in determining costs generally.

A. Oh, yes. The classification itself leads you down the garden pretty well, you know. I think there are 180 primary accounts.

THE CHAIRMAN: Q. 180 what?

A. Primary accounts, showing you the cost of say lost and damaged freight, and the cost of lost and damaged baggage,

and it shows yard operations, despatching costs, train operations, repairs, and back of those accounts are many other accounts, sub-accounts.

MR COVERT: Q. My point is, if railway operations do not lend themselves to cost accounting, and a good many businesses do -- and that is, I presume, how those businesses watch to see how they are getting along, see on what businesses they are losing and on what they are making. Now, railways do not lend themselves to that, as I understand it, so you use yardsticks?

A. Yes. What I mean---

Q. All I wanted to find out, Mr. Liddy, was this: Does the C.P.R. use the ordinary yardsticks?

A. Yes.

Q. And they use all that the Class 1 roads in the United States do?

A. I do not think there are any of them have got anything that we haven't got.

Q. Now I want to discuss with you the matter of depreciation. Without admitting the validity of arguments one way or the other, is it fair to say that the objections to the user system or to the user method of depreciation might be summarized under these two headings: The user method involves two unknown factors or two estimates, namely, the estimated length of life in terms of time and the estimated amount of use which will be obtained in that period of time, as compared with only one estimated factor in the straight line, namely, the time element?

A. Well, it is difficult to ask me that objection, because you are putting it on the negative side.

Q. I will put it this way to you: That is one of the distinctions, isn't it, between the two? In the one because you have the two estimates, and in the other the one?

A. Well, I would not quite go that far. I say there is an estimate of life in the straight line basis.

Q. Yes; and you have that same one in the user?

A. Yes, and you can estimate one just as accurately as you can the other. They are both more or less independent in a lot of respects. Take equipment; you cannot say that life is permanently fixed at such-and-such a span, and disregard the use that that particular equipment may be put to. They are both variables, both imponderables, both subject to an estimate.

Q. Yes, but in the one eventually you must base your rate on two estimates, and in the one you base it on the one; isn't that correct?

A. No, we do not do that, as a matter of fact. It is true we look at life in years.

Q. In either method?

A. Yes.

THE CHAIRMAN: Q. You look at what?

A. We look at life in years -- that is, what the record shows.

Q. Yes, you told us that the other day, that after all there is an element of time in both methods?

A. That is right.

Q. That is, you do not consider that after so much use the lifetime of an asset has expired, do you? That is, taking a locomotive, you do not say, "Well, now, after it has travelled so many miles that is the end of it." It may take ten years to do that, or it may take twenty, or it may take thirty?

A. That is right; and usually in its old life it runs along with small use. It may take five years in the last stage of its life to make the same mileage that it makes in its first year of life.

Q. What I want to know is this: Do you say, "Now, we allot so much use to this locomotive"?

A. Oh, no.

Q. And at the end of so much use it is through?

A. Oh, no.

Q. You do not do that, do you?

A. No.

Q. So you do not reject the element of time entirely, at all?

A. No, sir. And straight line cannot reject the element of use either, because time is a function of use in a lot of respects.

Q. As I see it, they say something ought to last fifteen years, and therefore they say so much a year. I just wanted to make sure of that, because there was some doubt left in my mind the other day. You do not take use alone as putting an end to life?

A. Oh, no.

THE CHAIRMAN: Well, that is important.

I think probably this would be a good time to adjourn, Mr. Covert.

MR COVERT: Do you want to adjourn now, Mr. Chairman?

THE CHAIRMAN: Well, I am a few minutes fast. Go on for two or three minutes if you like.

MR COVERT: Q. We could not agree, then, Mr. Liddy, that there was that difference between the two, that in one case you have one estimate and in the other two?

A. No, I would not say that. I would think the estimate in one case was just as accurate, perhaps even more so for user, as to life. I will give you an example of that, Mr. Covert, a simple example. Supposing you own an automobile, and your experience in the past has been that

an automobile lasts you five years, and that you ran during that five years 75,000 miles. Now, you buy another car, and you are just a little older and you don't run so far each and every year. Your life is not five years with that car; your life may be eight. To me the common denominator is miles more than life in years.

Q. Is it, though? If you say it is, and you say that 75,000 miles, for instance, is the life of that car, then you are just taking that one factor of number of miles or perhaps use to determine; that is your estimate there?

A. Well, I say that with an automobile -- I don't know whether I am right about the 75,000 -- some people might want to drive 90,000 -- but, whatever that figure may be, the time comes when you have reached that stage that you have to re-bore your engines and you have to do a lot of things, and you may as well go out and buy a new car.

Q. I think I follow your argument, Mr. Liddy, and all I wanted to get was the answer to that question. You do not agree that there is that distinction, that in the one case there is one estimate and in the other case two. Now, the other point of difference was that because of the application of units of use to various groups of assets, the checking or policing of the rates by a regulatory body is extremely difficult and complicated?

A. I do not think it would be in Canada.

Q. You think, for example, that the Board of Transport Commissioners would be in a position to deal with these, to test these tools that you use? For instance, I think you mentioned the curve of survivorship, or the survivor curve?

A. The survivor curve and growth trend curve.

Q. You think they are fully equipped, for instance, to test and police that?

A. I see no difficulty at all.

Q. As they are today?

A. That is right.

Q. I would like to ask you this, Mr. Liddy: Is it fair to point out that if the straight line method is used consistently in a rate application based on requirements, the Board of Transport Commissioners would not find your requirements as high as they would in the case of a user basis if at the time of your application your traffic volume were heavy and hence your depreciation requirements were high?

THE CHAIRMAN: Your traffic requirements were what?

MR COVERT: Were heavy.

THE WITNESS: That is quite a question. I am going to say Yes to that, Mr. Covert, and if I am not right could I speak to it tomorrow?

Q. Yes, certainly.

THE CHAIRMAN: Well, are you about through?

MR COVERT: No, I am afraid not, Mr. Chairman.

THE CHAIRMAN: Well, there is nothing to be afraid of, Mr. Covert. We will go on tomorrow. Perhaps Mr. Liddy would like the time to think that question over.

THE WITNESS: Thank you, Mr. Chairman.

MR COVERT: I am sorry. I had hoped to finish. Mr. Liddy has been on a long while.

---The Commission adjourned at 4:45 p.m., to meet again at 10:30 a.m. on Wednesday, March 8, 1950.